



Tri-Cities Airport Authority

Tri-Cities Regional Airport, TN/VA

Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2013



TRI-CITIES REGIONAL AIRPORT
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Tri-Cities Airport Authority

Blountville, Tennessee

Jointly Governed by
Bristol, TN
Bristol, VA
Johnson City, TN
Kingsport, TN
Sullivan County, TN
Washington County, TN



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Comprehensive Annual Financial Report For the Fiscal Year Ended June 30, 2013

Prepared by:
Accounting Department

TRI-CITIES AIRPORT AUTHORITY

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Introduction

- Vision and Mission
- Commissioners and Senior Staff
- Letter of Transmittal
- Certificate of Achievement
- Organizational Chart



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Tri-Cities Airport Authority

Tri-Cities Regional Airport, TN/VA

Vision

To be a premier air transportation center
and a catalyst for economic growth

Mission

To support economic growth by providing the best
available facilities and service for passengers,
air cargo, corporate and general aviation



TRI-CITIES REGIONAL AIRPORT
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TRI-CITIES AIRPORT AUTHORITY

AUTHORITY BOARD & SENIOR STAFF

As of June 30, 2013

Authority Board Members

Mr. James "Jim" Rector, Chairman

Mr. Joe L. Wilson, Secretary-Treasurer

Dr. Frank Anderson, Assistant Secretary-Treasurer

Mr. Ken Maness

Mr. James "Moe" Brotherton

Mr. Bill Sorah

Mayor Dan Eldridge

Mayor Steve Godsey

Dr. Sam Humphreys

Mr. Dan Mahoney

Ms. Jane Myron

Mr. J. Parker Smith

Airport Senior Staff

Patrick Wilson, Executive Director

David Jones, Director of Operations

Larry G. Bailey, Interim Director of Finance from April 2013

William Anderson, Director of Finance to April 2013

Melissa Thomas, Director of Marketing & Air Service Development

Kathy Yakley, Manager of HR & Administrative Services

Mark Canty, Trade Development Specialist



≈≈≈ Letter of Transmittal ≈≈≈

December 3, 2013

To the Members of the Tri-Cities Airport Authority:

This “Comprehensive Annual Financial Report” (CAFR) of the Tri-Cities Airport Authority for the year ended June 30, 2013 is hereby submitted. This report was prepared in accordance with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by Blackburn, Childers & Steagall, PLC.

The Accounting Department of the Tri-Cities Airport Authority has prepared this report and assumes full responsibility for the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the proprietary fund of the Tri-Cities Airport Authority.

The CAFR was prepared using the guidelines set forth by the Government Finance Officers Association of the United States and Canada (GFOA) to be eligible for application of the Certificate of Achievement Award. The guidelines require management to provide a narrative introduction, overview, and analysis to accompany the financial statements in the form of a, “Management Discussion and Analysis” (MD&A). This “Letter of Transmittal” should be read in conjunction with the MD&A that is located in the Financial Section.

REPORTING ENTITY

On November 28, 2012 the following notification to Mr. Phillip Braden, Manager Federal Aviation Administration, Southern Region was provided by Patrick Wilson the Executive Director of the Tri-Cities Airport. “Please accept this letter as notification that, effective September 25, 2012, the Tri-Cities Airport Authority (“Authority”) came into legal existence pursuant to the laws permitting the creation of and defining the powers of regional airport authorities in the State of Tennessee. (See, Tennessee Code Annotated § 42-3-104 through § 42-3-119).

REPORTING ENTITY (CONTINUED)

The Authority is a public body, corporate and politic, and has a separate legal existence from the former Owners of the Tri-Cities Regional Airport, TN/VA ("Airport"), same being the City of Bristol, Virginia, the City of Bristol, Tennessee, the City of Johnson City, Tennessee, the City of Kingsport, Tennessee, Sullivan County, Tennessee, and Washington County, Tennessee ("Owners"). The Tri-Cities Airport Commission, which operated and managed the Airport for the Owners, has been transitioned to the Authority, which is governed by the Board of Commissioners of the Authority.

Currently, the Authority, the Owners, and the Tri-Cities Airport Commission are engaged in a transition period. All real and personal property, other assets, contracts, agreements, leases, grant assurances, and most other legal obligations of the Owners and the Tri-Cities Airport Commission related in any manner to the Airport are being assumed, adopted and ratified, unconditionally, by the Authority. The Authority is also assuming and adopting all rules, regulations, and procedures which are in place to operate the Airport.

The Tri-Cities Airport Authority is jointly governed by six cities and counties. The Airport Authority is charged with the responsibility of directing the development, operation, maintenance, control and administration of the Tri-Cities Regional Airport, TN/VA.

The Airport Authority is composed of a twelve member board each with one vote. Each entity is entitled to appoint a specified number of Board Members as follows:

<u>Governmental Entity</u>	<u>Representation</u>
Washington County, Tennessee	3 Board Members
City of Johnson City, Tennessee	3 Board Members
Sullivan County, Tennessee	2 Board Members
City of Kingsport, Tennessee	2 Board Members
City of Bristol, Tennessee	1 Board Member
City of Bristol, Virginia	1 Board Member

The officers of the Authority consist of a Chairman, Vice-Chairman, a Secretary-Treasurer, and an Assistant Secretary-Treasurer. The Authority currently has five standing committees. These committees are advisory in nature but are authorized to make decisions that are binding on the full Authority with prior approval by the Authority. The current committees are: Executive, Administration/Operations, Marketing, Airfield Development, and the Air Cargo and Trade Development.

MANAGEMENT

The Airport Authority hires an Executive Director to head up the management of the Airport. The Executive Director oversees a staff of 43 full-time employees, as of June 30, 2013. The staff is responsible for the day-to-day administrative, financial, operational and personnel matters relating to the Tri-Cities Regional Airport TN/VA.

There are eleven departments overseeing the activities at the Tri-Cities Regional Airport. The executive Director, Patrick Wilson, heads the administrative Department and oversees the operations, marketing, finance and air cargo and trade development departments. These duties were temporarily performed by the Director of Operations from April to August.

MANAGEMENT (CONTINUED)

David Jones, Director of Operations, oversees the access control, janitorial, maintenance, public safety and engineering services departments. The Operations department also ensures that the Airport complies with FAA standards and regulations. The Operations department is responsible for preparing state and federal grant applications and coordinates the efforts of engineering, consultants, and others to complete the design and construction of all capital improvement projects at the Airport.

Larry Bailey, Interim Director of Finance, oversees all accounting functions, including the Airport's budgets, audits, payables, receivables, payroll and all financial reporting. All financial obligations and/or indebtedness are handled in the finance department.

Melissa Thomas, Director of Marketing and Air Service Development, oversees the marketing department, handling advertising, public and airline relations and marketing the Airport to passengers and prospective airlines. She also works to market TRI Aviation Park, the Airport's new business park. She also oversees the Airport Services staff, supervised by Karen Weaver, who assist passengers in the terminal, handle phone inquiries and conduct tours.

Kathy Yakley, Manager of Human Resources and Administrative Services, is responsible for employee relations and benefits, retirement programs and property administration.

Mark Canty, Air Cargo and Trade Development Specialist, is responsible for promoting air cargo, administration of Foreign Trade Zone No. 204, development and maintenance of programs and initiatives designed to foster international trade, and marketing and promotion of the U.S. Customs station within the Tri-Cities Region. He also works to market TRI Aviation Park.

THE AIRPORT TODAY

Tri-Cities Regional Airport is centrally located between the Tennessee cities of Bristol, Kingsport, Johnson City, and Bristol, Virginia and serves Northeast Tennessee, Southwest Virginia and parts of North Carolina and Kentucky. The Tri-Cities region is strategically located within a day's drive of more than 70 percent of the nation's population.

The region offers a wide range of market benefits including a 60-mile trade population of approximately 1 million, a large manufacturing sector, exceptional interstate highway network and 27 regional industrial parks with more than 2,500 acres of developable property.

The Airport's property covers approximately 1,250 acres of land, 89 acres in easements, and a 113,532-sf passenger terminal building with ample short-term and long-term parking, passenger services, national rental car brands, restaurant/bar/gift shop, business center and free wireless internet.

A 13,000-sf Air Cargo Logistics Center houses US Customs and Border Protection Port #2027 and Foreign-Trade-Zone #204. The site includes a 485 ft. x 360 ft. cargo ramp, 75-ft-wide taxiway system and speculative building space. TRI Aviation Park 1, a 35-acre development area with direct airfield access lies adjacent to the Logistics Center.

THE AIRPORT TODAY (CONTINUED)

TRI Aviation Parks 1 and 2 are key to the continued development of the south side of the airfield. TRI Aviation Park 1 was recently certified by the State of Tennessee as part of the Select Tennessee program through the Tennessee Department of Economic and Community Development. This certification provides assurance to potential aviation-related businesses and developers that the site has no significant environmental issues, has all utilities in place, and is ready for building.

TRI Aviation Park 2 comprises approximately 127 acres that is now accessible as the result of relocating Hamilton Road, which had to be done to accommodate the Taxiway R extension. TRI Aviation Park 2 provides extensive airfield access as well as parcels for prospective companies requiring more acreage. The Airport is working cooperatively with Networks Sullivan Partnership to market the sites. Networks provided initial seed money to develop a website, www.TRIaviationPark.com and hire a consultant to assist with developing the proper contacts and a marketing plan.

Port #2027, a federally staffed, full-service customs station, allows for passengers and imported goods to clear Customs in the Tri-Cities and avoid congestion and delays common at larger Ports of Entry.

A fixed based operator (FBO) is housed on Airport property to accommodate private and corporate aircraft operations. The FBO serves as the point-of-entry for customers who are not using commercial airline service and provides aircraft storage, fuel and maintenance services.

ECONOMIC CONDITIONS AND OUTLOOK

Airport

As the physical link between passengers and the air transportation network, the Airport Authority strives to provide air service to meet passenger demand. Historically, Tri-Cities' passenger base has been business oriented, and that trend is expected to continue. However, with the addition of low fare service on large jet equipment to Florida destinations, the percentage of leisure traffic has grown.

TRI offers three scheduled airlines serving passengers through four connecting hubs and leisure destinations. Delta Air Lines provides service to Atlanta, US Airways Express serves Charlotte, and Allegiant offers service to Orlando and St. Petersburg/Clearwater.

Passengers traveling on business account for approximately 55-60 percent of TRI's customer base. While that percentage has varied through the years depending on fare levels, TRI's air service and fare structure continue to be geared toward business travel, providing the stability to weather economic downturns. However, with a business market and only two network carriers, TRI is subject to higher fares and potentially vulnerable to airline bankruptcies and mergers.

During the 2013 fiscal year, passenger aircraft load factors increased 4.2 percent over the previous year, but the number of available aircraft seats decreased 1.3 percent. Passenger traffic decreased below FY 2012.

ECONOMIC CONDITIONS AND OUTLOOK (CONTINUED)

Airport (Continued)

The aviation industry is particularly challenging for small airports due to mergers, high fuel costs, and the move away from expensive regional jet aircraft toward larger jets with fewer frequencies. In 2013, Delta replaced two daily 50-seat regional jets with a DC-9 at TRI. While the larger jets are comfortable and popular with passengers, the reduced number of flights can impact customer convenience. The number of available seats at TRI remains relatively flat, but passengers have fewer flights from which to choose. The larger aircraft can accommodate large groups traveling together, which is a benefit to TRI and provides first class cabin service.

Over the past five years, the airline industry has been subject to several airline bankruptcies and mergers, resulting in the reduction of large network carriers, connecting hubs and competition to put downward pressure on fares. With recent approval of the US Airways/American Airlines merger, only three network carriers will remain: Delta Airlines (merged with Northwest Airlines), United Airlines (merged with Continental) and American Airlines (merged with US Airways). Since TRI currently has only Allegiant, Delta and US Airways service, it is not anticipated that the US Airways/American merger will negatively impact TRI. The Airport will continue to work toward increasing air service options for TRI travelers.

National and Local Economy

The Tri-Cities Airport Authority uses quarterly data produced by the East Tennessee State University Bureau of Business and Economic Research to monitor national and regional economic conditions. The following information was obtained from reports released by this organization.

Retail performance was mixed in the three cities during the second quarter of 2013, but was much improved over the previous period. Retail sales increased 2.0% in Johnson City to \$473 million and 1.8% in Kingsport to \$375 million, while falling 5.8% in Bristol to \$249 million. Over the April to June quarter, inflation adjusted retail sales rose 0.6% in Johnson City and .04% in Kingsport, while decreasing 7.1% in Bristol. In comparison, sales volume was higher by .1% in the metro area, 1.8% in Tennessee, and 3.0% in the United States. Over the April to June 2012 period, retail sales performance in the Tri-Cities Combined Statistical Area (CSA) increased .4% to \$1,692 million.

Employment in the metro area declined again in the second quarter of 2013, continuing a trend that began last spring. Compared to the same period in 2012, regional job levels were lower by 1.6% to 226,227 while unemployment rose 2.6% to 18,812. Over the April to June period, the jobless rate for the Tri-Cities consolidated Statistical Area (CSA) was 7.7%, compared to 7.4% a year earlier. This marks the first increase in unemployment levels and rate in three years.

Generally, national and local economic improvements support passenger increases in air travel. Thus, the mixed performance of the local economy has not provided the support needed for increasing passenger numbers.

CAPITAL PLANNING

Through the Airport's master planning process, the Authority lays out a Capital Improvement Program on a rolling five-year basis. Most of these projects are funded from federal and state grant funds generated from federal and state aviation user fees. A Capital Improvement Program is prepared annually for a five-year period outlining project descriptions and funding sources. Priorities are set in conjunction with the Airport's Master Plan. The priorities for FY 2013 were as follows:

- 1) Safety and security for all users of the Airport;
- 2) Projects deemed to meet air carrier passenger needs and demands;
- 3) Projects deemed to meet demands of general aviation, corporate, and cargo users;
- 4) Implement projects that will generate new revenue sources; and,
- 5) Implement projects that will maximize all sources of funding availability.

FINANCIAL INFORMATION

Internal Controls

Management of the Tri-Cities Airport Authority is responsible for establishing and maintaining an internal control structure designed to ensure that: (i.) the assets of Tri-Cities Airport Authority are protected from loss, theft or misuse; (ii.) to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles; and, (iii.) that federal financial assistance programs are managed in compliance with applicable laws and regulations.

The Airport Authority applied the concept of reasonable assurance in establishing internal controls. These assurances recognize that: (i.) the cost of a control should not exceed the benefits likely to be derived; and (ii.) the valuation of costs and benefits requires estimates and judgments by management.

As part of the Tri-Cities Airport Authority's single audit, tests were made of the Airport Authority's internal control structure and of its compliance with applicable laws and regulations, including those related to federal financial assistance programs. Although an opinion on the Airport Authority's internal control system or its compliance with laws and regulations was not given, the audit for the year-ended June 30, 2013 disclosed no material internal control weaknesses or material violations of laws and regulations.

Operating Budget

An annual operating budget is prepared and approved by the Tri-Cities Airport Authority. All appropriations for operating expenditures lapse at the end of the fiscal year and must be reappropriated for the following year. A Capital Projects Budget is approved annually with the appropriated funds remaining intact until completion of the project.

The Tri-Cities Airport Authority continues to meet its responsibility for sound financial management. The Airport Authority is self-supporting through user fees of the Airport and has not received local tax dollars since 1967.

CASH MANAGEMENT POLICIES

The Investment Policy of the Airport Authority sets the criteria for surplus funds. The Airport Authority consolidates cash balances from all funds to maximize investment earnings. The primary objectives of investment activities are safety, liquidity, and yield.

The Tri-Cities Airport Authority is authorized to make direct investments in bonds, notes or treasury bills of the U. S. Government and obligations guaranteed by the U. S. Government or any of its agencies. These investments may not have maturity greater than two years, except as set out in Tennessee state law. Investments may also be made in the Tennessee State Pooled Investment Fund and in repurchase agreements with state approval.

RISK MANAGEMENT

The Tri-Cities Airport Authority is fully insured and carries insurance coverage with commercial insurance carriers in amounts sufficient to meet the Airport Authority's reasonable exposure. All tenants and lessees are required to carry specified amounts of insurance coverage, naming the Airport Authority as an additional insured. All contractors engaged in construction projects are required to meet minimum requirements as specified in the bid documents.

In addition to the insurance policies carried by the Airport Authority, a restricted investment account was established in 1987 as a self-insurance contingency fund to cover any claims not covered by insurance.

OTHER INFORMATION

Independent Audit

As required by state statutes, the Tri-Cities Airport Authority requires an annual independent audit by a Certified Public Accountant. The selection is administered by the Administration/Operations Committee with final approval by the full Authority. The firm of Blackburn, Childers & Steagall, PLC was selected to perform the independent audit for the year ending June 30, 2013. The audit is also used to meet the requirements and all revisions of the federal Single Audit Act of 1984, and the related U. S. Office of Management and Budget's Circular A-133. Generally accepted auditing standards were used by the auditors in conducting their audit.

The auditor's report on the financial statements is included in the Financial Section of this report. The independent auditor's report on internal controls and compliance with applicable laws and regulations are located at the end of the financial section.

Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tri-Cities Airport Commission for its comprehensive annual financial report for the fiscal year ended June 30, 2012. This was the 14th consecutive year that the airport has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

OTHER INFORMATION (CONTINUED)

Awards (Continued)

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

We would like to take this opportunity to thank the Airport Authority for their leadership and support in planning and conducting the financial operations of the Airport. We would also like to recognize the efforts of the senior staff, David Jones, Melissa Thomas, Kathy Yakley, and Mark Canty for their contributions to this financial report. A special thanks is given to the accounting department staff, Janice Lynch, Tim Cartwright, and Teresa Acklin for their hard work and dedication.

Respectfully submitted,



Patrick W. Wilson
Executive Director



Larry G. Bailey
Interim Director of Finance

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Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Tri-Cities Airport Commission
Tennessee**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2012

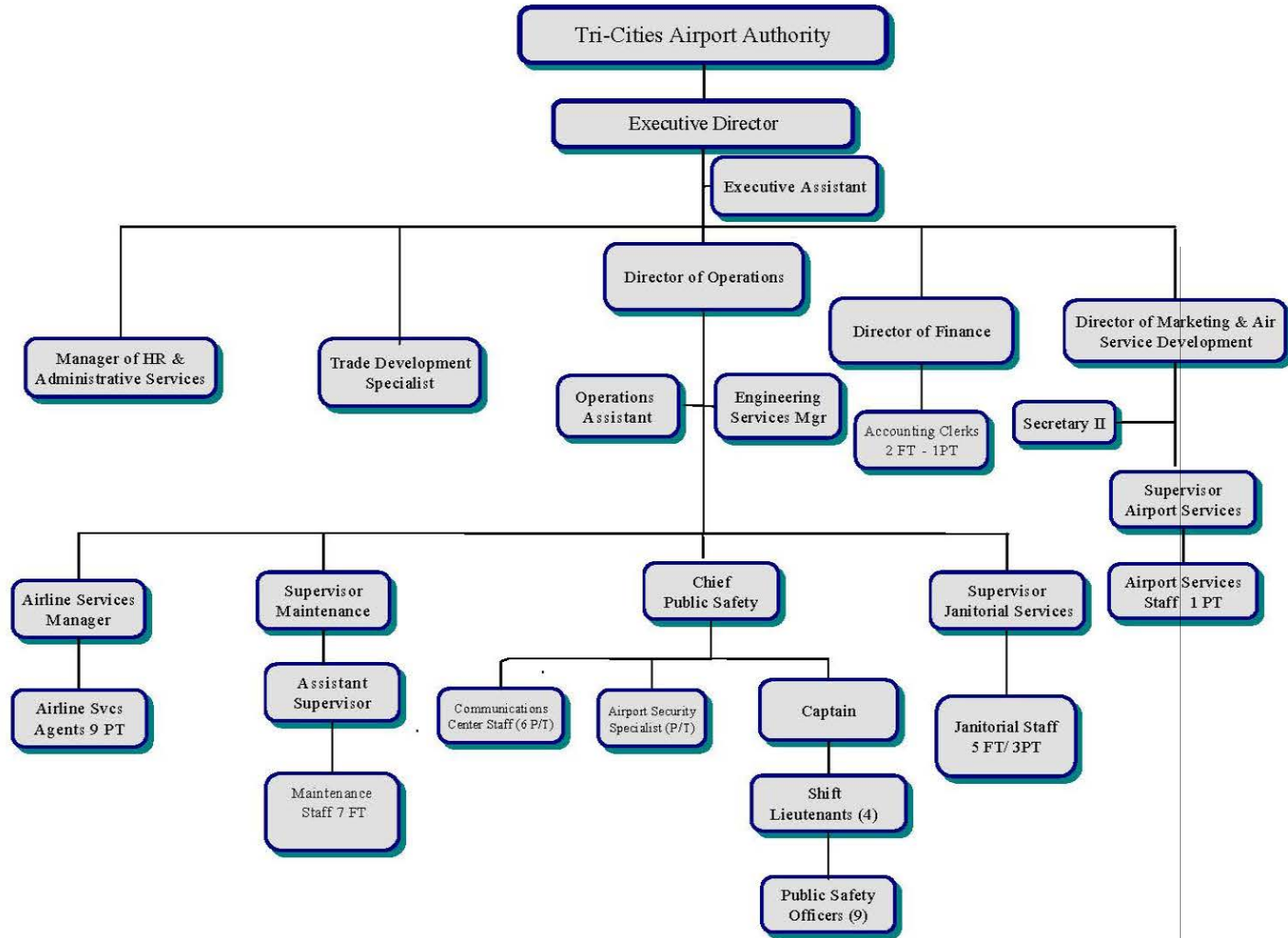


Executive Director/CEO

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TRI-CITIES AIRPORT AUTHORITY ORGANIZATION CHART



July 2013

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Financial

- Independent Auditors' Report
- Management's Discussion and Analysis
- Basic Financial Statements
- Required Supplemental Schedule
- Supplemental Schedules



TRI-CITIES REGIONAL AIRPORT
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Tri-Cities Airport Authority
Blountville, Tennessee

Basic Financial Statements

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Supplemental Information

For the Fiscal Year Ended June 30, 2013



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INDEPENDENT AUDITORS' REPORT

To the Honorable Commissioners
of the Tri-Cities Airport Authority
P.O. Box 1055
Blountville, Tennessee 37617

Report on the Financial Statements

We have audited the accompanying financial statements of the Tri-Cities Airport Authority as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Tri-Cities Airport Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tri-Cities Airport Authority as of June 30, 2013, and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, Tri-Cities Airport Authority adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedule of funding progress on pages 26 - 34 and page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Tri-Cities Airport Authority's basic financial statements. The introductory section, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of passenger facility charges is presented for purpose of additional analysis as specified in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration, and is not a required part of the basic financial statements.

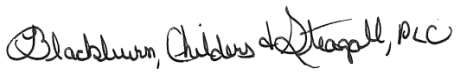
To the Honorable Commissioners
of the Tri-Cities Airport Authority
Independent Auditors' Report

The schedule of expenditures of federal awards, the schedule of expenditures of passenger facility charges and the other supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards, the schedule of expenditures of passenger facility charges and the other supplemental schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2013 on our consideration of the Tri-Cities Airport Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Tri-Cities Airport Authority's internal control over financial reporting and compliance.


Blackburn, Childers & Steagall, PLC
Johnson City, Tennessee

December 3, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

The following Management's Discussion and Analysis (MD&A) of the Tri-Cities Regional Airport, TN/VA's activities and financial performance provides an overview of the Tri-Cities Airport Authority's basic financial statements for the fiscal year ended June 30, 2013. The Tri-Cities Airport Authority is the governing entity operating the Tri-Cities Regional Airport, TN/VA as of June 30, 2013. This MD&A should be read in conjunction with the "Letter of Transmittal" included in the Introductory Section and the Authority's financial statements following this section.

Overview of the Financial Statements

The Financial Section of this annual report consists of four parts: (i.) Introductory; (ii.) Financial; (iii.) Statistical Schedules; and (iv.) Internal Control and Compliance.

The Tri-Cities Airport Authority is a special-purpose government with only business-type activities. The Basic Financial Statements include proprietary fund financial statements, which offer short-term and long-term financial information about the activities of the Tri-Cities Airport Authority.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by required supplementary information and other schedules that further explain and support the information in the basic financial statements.

Required financial statements include the: (i.) Statement of Net Position; (ii.) Statement of Revenues, Expenses and Changes in Net Position; and, (iii.) Statement of Cash Flows. The financial statements are prepared using the accrual basis of accounting and economic resources measurement focus. All assets and liabilities, both financial and capital, and short-term and long-term are recorded. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of timing of related cash flows. The accompanying notes to the financial statements enhance the reader's understanding of the Airport Authority's accounting policies.

Airport Activity Highlights

Airport Passenger Activity during FY 2013 decreased by 8.4 percent compared to FY 2012 as the economy was relatively flat and the airline industry declined. Total aircraft operations were down by 10.3% due primarily to a decline in overall airline participation. Aircraft landed weights and airline seats were down 9.4% and 7.2%, respectively, due to reduced airline flights. Air Cargo activity decreased 61.7% due to competition from truck freight haulers.

The following table shows the increases and decreases from the previous fiscal year.

Activity	FY 2013	FY 2012	% of Change
Passengers	409,056	446,549	-8.4%
Aircraft Operations	47,551	52,988	-10.3%
Aircraft Landed Weights (lbs.)	250,175	276,067	-9.4%
Seating Capacity	540,502	582,380	-7.2%
Mail	45	768	-94.1%
Air Freight	58,905	153,941	61.7%

The following airlines are serving Tri-Cities Regional Airport, TN/VA:

Delta Connection offers the majority of flights and seats at TRI. Delta provides an average of eight flights per day to Atlanta aboard 50 seat regional jets and a DC-9's with 130 seats.

US Airways Express has an average of eight daily round-trip flights to Charlotte aboard 50-passenger Embraer and Canadair regional jets and the de Havilland Dash 8 turboprop seating 50 passengers.

Allegiant Air provides low fare service to Orlando and St. Petersburg/Clearwater aboard 150-seat MD-80 jets.

Financial Position

The overall financial position of the Airport Authority improved with a 63.2% increase in total net assets. This increase was primarily due to major capital contributions due to the continuation of growth in large projects.

Operating Income before depreciation and amortization was down 44.3% from 2012 largely because of an increase in operating expenses of 4.6% from 2012.

Capital contributions received from federal and state grants were up by \$3,039 million from last year.

Summary of Changes in Net Position

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues	\$ 6,080,339	6,160,383	5,896,264
Operating Expenses	5,669,838	5,422,576	5,347,016
Operating Income Before			
Depreciation and Amortization	410,501	737,807	549,248
Less: Depreciation and Amortization	3,510,733	3,332,671	3,161,663
Operating Loss	(3,100,232)	(2,594,864)	(2,612,415)
Non-Operating Revenues (Expenses)	917,552	1,253,169	936,264
Loss before Capital Contributions	(2,182,680)	(1,341,695)	(1,676,151)
Capital Contributions	7,859,918	4,821,258	3,640,905
Change in Net Position	<u>\$ 5,677,238</u>	<u>3,479,563</u>	<u>1,964,754</u>

Operating and Non-Operating Revenue Highlights

Operating revenues are generated from the tenants and/or "users" of the Airport through airfield charges, terminal rents, concession revenue, parking fees, and other sources.

Operating and Non-Operating Revenue Highlights (Continued)

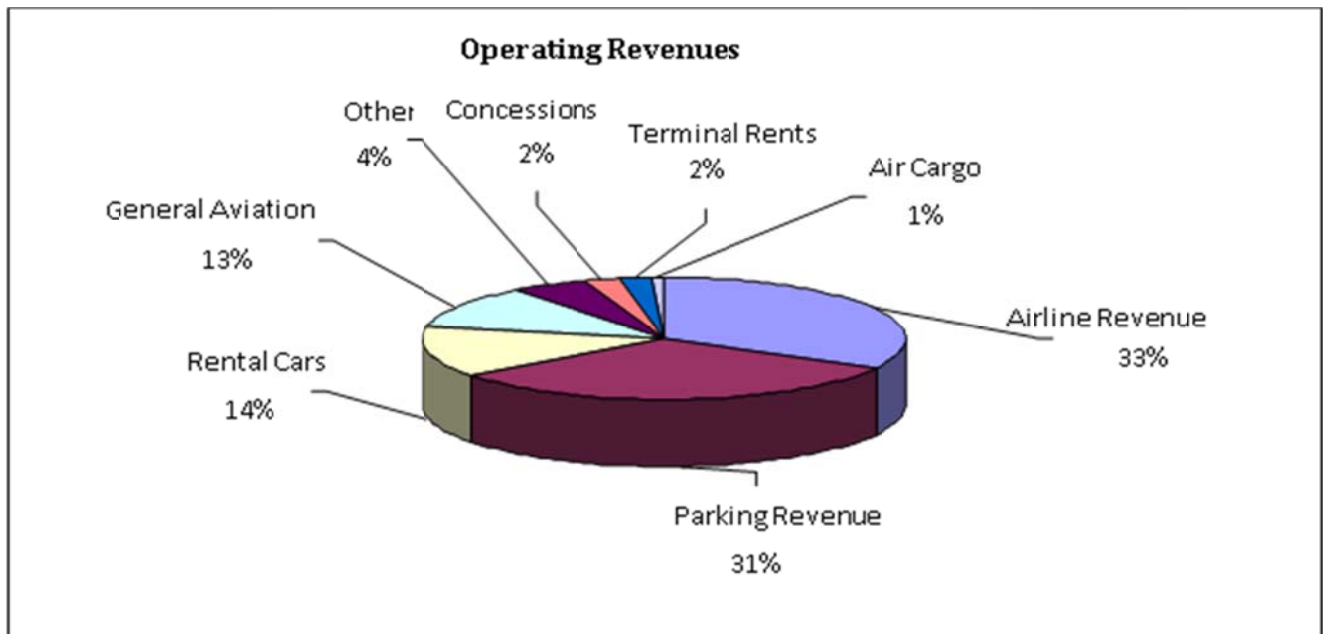
Non-operating revenue is made up of unrestricted and restricted funds. Unrestricted revenue comes from interest income, investment gains, and other sources not resulting from operations. The restricted revenue is generated for a defined purpose and cannot be used to fund operating expenses. The current restricted revenues are Passenger Facility Charges and Customer Facility Charges.

The Airport Authority develops an operating budget and capital improvement budget each year. Operating revenues are generated to first fund operating expenses. Any net operating revenues are then transferred to the reserve accounts to fund the Airport's portion of capital projects. Any net revenues after capital projects are placed in the operating reserves.

The following schedule presents a summary of revenues for the fiscal years ended June 30, 2013, 2012 and 2011:

	Year Ended June 30,		
	2013	2012	2011
Operating Revenues			
Airline Revenue	\$ 2,035,422	2,004,798	1,952,081
General Aviation	796,602	728,727	669,528
Air Cargo	66,459	61,615	51,394
Parking	1,868,305	1,945,375	1,858,862
Rental Cars	822,556	873,378	792,309
Concessions	105,798	108,222	136,885
Terminal Rents	111,559	126,718	127,132
Other	273,638	311,550	308,073
Total Operating Revenues	\$ 6,080,339	6,160,383	5,896,264
Non-Operating Revenues			
Interest Income	\$ 21,939	17,660	31,380
Gain on Sale of Land to State of TN	-	241,712	-
Other Gains on Sale of Assets	-	29,485	-
Proceeds on Sale of Assets	9,745	-	-
Passenger Facility Charges	771,260	884,120	879,296
Customer Facility Charges	381,681	379,825	355,410
Total Non-Operating Revenues	\$ 1,184,625	1,552,802	1,266,086
TOTAL REVENUES	\$ 7,264,964	7,713,185	7,162,350
Capital Contributions			
Federal Grant Revenue	\$ 6,831,868	1,730,504	2,580,825
State Grant Revenue	1,028,050	3,090,754	1,060,080
Total Capital Contributions	\$ 7,859,918	4,821,258	3,640,905

The following chart shows the sources of operating revenue and percentage of operating revenues for the year ended June 30, 2013.



Operating Revenues decreased by \$80,044 or 1.3% from \$6,160,383 for the 2012FY to \$6,080,339 in 2013FY.

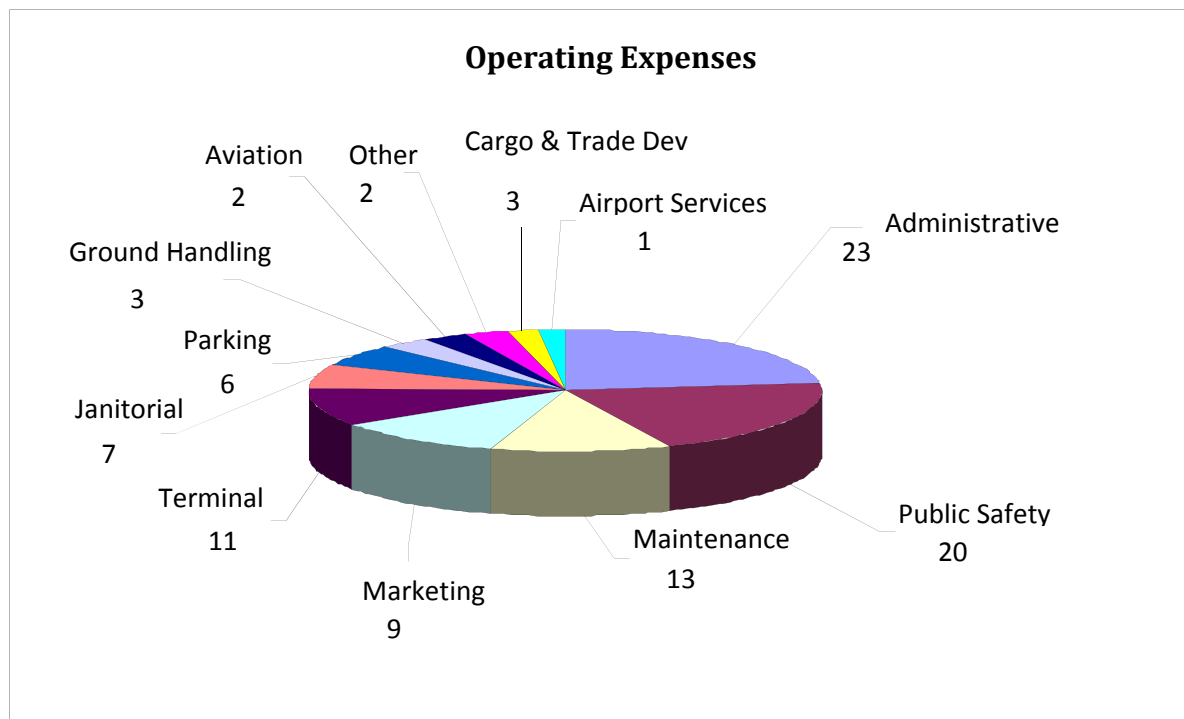
- ✈️ Airline revenue increased by 1.5% or \$30,624 on revenues over the 2012 FY.
- ✈️ General Aviation revenue was up by \$67,875 or 9.3% over the 2012 FY.
- ✈️ Parking revenues were down from the 2012FY by 4% or \$77,070 due primarily to decreased passenger traffic.
- ✈️ Rental Car revenue was also down by \$50,822 or 5.8% largely because of decreased passenger traffic.
- ✈️ Other Revenues were down by \$37,912 or 12.2% from the 2012FY.

Operating Expenses

The following schedule presents a summary of expenses for the fiscal years ended June 30, 2013 and 2012:







Operating Expenses	2013 Amount	2012 Amount	Change from 2012	Percent Change from 2012
Administrative	\$ 1,343,586	1,224,196	119,390	9.7%
Public Safety	1,130,360	1,133,463	(3,103)	-0.3%
Maintenance	712,085	661,658	50,427	7.6%
Terminal	628,145	575,948	52,197	9.1%
Marketing	509,182	544,560	(35,378)	-6.5%
Janitorial	374,596	361,721	12,875	3.6%
Parking	306,934	288,181	18,753	6.1%
Ground Handling	176,418	176,667	(249)	-0.1%
Cargo and Trade Dev.	136,397	136,209	188	0.1%
Other	142,065	125,494	16,571	13.2%
Aviation	142,937	121,151	21,786	18.0%
Airport Services	67,133	73,328	(6,195)	-8.5%
Total Operating Expenses	\$ 5,669,838	5,422,576	247,262	4.6%

The following pie chart shows the Airport Authority's expenses by category and the percentage of operating expenses for the year ended June 30, 2013.



Operating Expenses Highlights

Operating Expenses were up by \$247,262 or 4.6% as compared to the previous year. Variation analysis of the Operating Expenses revealed:

-  Administrative expenses were up \$119,390 or 9.7% primarily due to increased legal fees and consulting services.
-  Maintenance expenses were up \$50,427 or 7.6% due to wages and benefits.
-  Terminal costs were up \$52,197 or 9.1% due largely to increased utilities and building repairs.
-  Parking expenses were up \$18,753 or 6.5% due primarily to increased wages and benefits.
-  Aviation expenses were up \$21,786 or 18.0% largely due to increases in building maintenance cost.
-  Marketing expenses were down \$35,378 or -6.5% due primarily to reduced marketing initiatives.

Financial Position Summary

The Statement of Net Position presents the financial position of the Airport at the end of the fiscal year. The statement includes all assets, deferred outflows and liabilities of the Airport. Net position is the difference between the total assets and total liabilities.

A condensed summary of the Airport Authority's total net position for the fiscal years ended June 30:

	Year Ended June 30,		
	2013	2012	2011
Current Assets	\$ 5,183,935	4,356,522	3,821,822
Capital Assets (net)	70,336,327	65,977,059	63,979,535
Restricted Noncurrent Assets	3,255,291	2,860,121	2,861,602
Total Assets	78,775,553	73,193,702	70,662,959
Deferred Outflows of Resources	15,317	-	-
Current Liabilities	3,130,584	2,316,146	2,452,426
Noncurrent Liabilities	3,544,049	4,374,502	5,187,042
Total Liabilities	6,674,633	6,690,648	7,639,468
Net investment in capital assets	65,756,371	61,201,867	58,312,190
Restricted	898,330	898,414	819,966
Unrestricted	5,461,536	4,402,773	3,891,335
Total Net Position	\$ 72,116,237	66,503,054	63,023,491

Airline Rates and Charges

The Airport Authority establishes airline rates and charges based on an annual review of projected airline activity and associated operating expenses. The Authority's rate setting philosophy incorporates a terminal rental rate calculated in a compensatory manner, in which the tenants pay only for their share of the facility occupied and used. The landing fee is based on an airfield residual cost center approach wherein the passenger and cargo carriers pay the net costs of the airfield, after receiving credit for airfield-related general aviation revenues.

The previous operating agreement with the air carriers expired June 30, 2007. In May 2010, the Airport Authority established the following interim rates and charges. The Airport is currently working with the air carriers on the development of a new airline operating and use agreement.

Signatory Airline Rates and Charges (FY 2013)

Terminal Square Foot Rate per year	\$33.01
Landing Fee (per 1,000 lbs MGLW)	\$ 2.17
Apron Fee, per Turn	\$ 9.02
Passenger Loading Bridge Per Use	\$ 15.00
Public Safety Reimbursement	50% of Public Safety Budget

Capital Acquisitions and Construction Activities

During fiscal year 2013, several capital improvement projects were started and completed. Listed below are some of the major projects.

Completed Projects

The airport passenger terminal building improvements continued, in phases, as funding becomes available. The Phase 3 project was started and completed, with the emphasis on the bag claim area of the terminal building. The project scope included the ceiling tiles and lighting being removed and replaced, along with the wall paper being removed and replaced with a painted surface. The HVAC system serving the area was removed and replaced along with the main terminal building water and sanitary sewer lines being replaced. The Grande Harbor six lots were purchased to control the Runway 27 runway protection zone. New aircraft rescue and fire-fighting personal protection equipment, fire suits, were purchased. A new access control project was completed on the air carrier ramp with the installation of a security gate and fence, motion sensors and cameras. The Runway 27 runway safety area project was completed to accommodate new FAA regulations on improved runway safety areas for all Part 139 airports. The project included displacing the Runway 27 threshold, electrical and pavement marking improvements. Also included in the project were the Runway 9 runway safety area improvements, which included grading and storm sewer improvements. The Master Plan project was completed. The project included inventory and analysis of the airport passengers and facilities demand/capacity/alternatives, financials review of capital projects, an airport layout plan and updating an Exhibit A property map. The project also included public meetings and presentations to the airport Board of Commissioners. The Master Plan forecast was approved by the FAA in March 2010.

Current Projects

The airport continues with the multi-year airfield safety project to extend Taxiway R to the end of Runway 5; creating a full parallel taxiway on the south side of the primary Runway 5/23. The Taxiway R Extension and Hamilton Road project is nearing completion. The project completed relocating a portion

of Hamilton Road to accommodate the extension of Taxiway R. The road relocation work included clearing and grubbing, grading, asphalt paving, storm sewer and utility installation. The second part of the project is the Taxiway R Extension project, which will include grading, storm sewer installation, asphalt paving, taxiway edge lights, and pavement markings. The airport continues with the Runway 5/23 Rehabilitation project and should complete the project in the late fall of 2013, or early winter of 2014. This major runway safety rehabilitation project includes milling the asphalt surface and repaving of the entire primary runway surface, pavement markings and grooving the new asphalt surface for drainage. The runway electrical improvements include the installation of new LED lights for the runway centerline and touch down zone lights, new runway edge lights, conduits and electrical regulator improvements. The project also includes the installation of storm sewer under drains, runway asphalt shoulders, conduit duct bank installed to accommodate future airfield electrical needs and paving taxiway intersections as need for proper drainage and safety. The airport designed and bid two separate projects to begin in late fall 2013. The projects include improving the terminal building access road. The project improvements include milling and re-paving the asphalt surface, pavement markings, storm drainage upgrades and utility and signage upgrades. The airport will relocate the current communications center personnel and operations to the lower level of the terminal building. The project will include relocating the access control equipment and adding a new emergency operations center. A second part of the project will include installing a security fence with access controls along the airport operations area between the airfield and the Eastman operations hangar.

Debt Administration

The Tri-Cities Airport Authority has operated as a joint venture between four cities and two counties and has not had the Authority to borrow funds. In July of 1995, one of the owners of the Airport, Sullivan County, Tennessee, issued \$7 million in airport revenue and tax bonds, series 1995. These funds were to be used to fund several capital projects. These bonds are to be paid first from passenger facility charges (currently, \$4.50 fee per enplaned passenger), second from all other revenues and reserves of the Airport, and third from the Owners of the Airport. The funds were used for terminal improvements, the safety area expansion, and site preparation for the Southside development.

In August 2003, Sullivan County, Tennessee, on behalf of the Airport Authority, entered into a \$5 million Airport Revenue and Tax Bonds (Taxable) Series 2003. The average coupon rate is 5.54 percent with annual debt service of approximately \$432 thousand dollars. The bonds will mature in twenty years. The outstanding debt as of June 30, 2013 was \$4,350,000.

In the notes to the financial statements, Note 9 – Long-Term Debt, describes the bonds in more detail and reflects a summary of the repayment structure.

Passenger Facility Charge (PFC)

The Tri-Cities Airport Authority received approval from the FAA to implement a Passenger Facility Charge (PFC) for \$3.00 per enplaned passenger beginning February 1997 for a total of \$8.5 million. The PFC is used to improve airport facilities. In August 1999, the PFC was amended to reduce the first portion to \$5.6 million in collections and to add two additional projects requiring collections of \$5.8 million. In August 2007 the PFC was increased to \$4.50, with two additional projects totaling \$668,500 and a total combined Authority of PFC collections of \$11.19 million.

Customer Facility Charges (CFC)

A Customer Facility Charge (CFC) is a fee charged on each rental car contract that must be used to pay rental car bond debt service and to maintain rental car facilities. A \$6 per contract fee was enacted on November 1, 2002. Due to a decrease in rental contract activity, this rate was increased to \$7 per contract in January 2005 and then to \$9 in August 2010. As of June 30, 2013, the airport's rental car concessionaires had collected \$2.945 million in Customer Facility Charges.

Economic Factors

According to the latest report by the ETSU Bureau of Business & Economic Research, employment in the metro area declined again in the second quarter. Compared to the same period in 2012, regional job levels were lower by 1.6%, while unemployment rose 2.6%. Over the April to June period, the jobless rate for the Tri-Cities Consolidated statistical Area (CSA) was 7.7% compared to 7.4% a year earlier. This represents the first increase in unemployment levels and rate in three years.

Acknowledgments

This financial report is designed to provide a general overview of the Tri-Cities Airport Authority's finances for all interested parties. Questions concerning this report or requests for additional information should be directed to Larry G. Bailey, Interim Director of Finance, Tri-Cities Airport Authority, 2525 Highway 75, Suite 301, Blountville, TN 37617, telephone (423) 325-6007, or e-mail address of LBailey@triflight.com.

Basic Financial Statements



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TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2013

ASSETS

CURRENT ASSETS

Cash on Hand	\$ 3,109
Cash in Bank - Checking	1,178,618
Restricted Assets	
Cash in Bank - Passenger Facility Charges	339,780
Cash in Bank - Customer Facility Charges	216,634
PFC Receivable	87,509
Cash in Bank - Escrow	402,559
Accounts Receivable - Operations (Net of Allowance, \$61,630)	548,070
Grants Receivable	2,319,498
Prepaid Expenses	88,158
	<hr/>
Total Current Assets	5,183,935

NONCURRENT ASSETS

Capital Assets	
Land	15,294,926
Construction in Progress	12,861,651
Runways and Roads	66,990,379
Parking Lot	4,936,487
Terminal Building	16,131,832
Other Buildings	10,438,463
Equipment and Vehicles	10,005,594
Master Plans	655,524
Less: Accumulated Depreciation	(66,978,529)
Net Capital Assets	<hr/> 70,336,327
Restricted Assets	
Cash on Deposit with other Governmental Entities - Construction	104,006
Cash on Deposit with other Governmental Entities - Debt Service Reserve	1,058,760
Certificates of Deposit	1,540,531
Certificates of Deposit - Passenger Facility Charges	471,041
Certificates of Deposit - Customer Facility Charges	51,060
Utility Deposits	2,318
Equipment Deposits	27,575
	<hr/>
Total Noncurrent Assets	73,591,618

TOTAL ASSETS	<hr/> 78,775,553
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Bond Refunding	15,317
	<hr/>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<hr/> 15,317
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(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2013

LIABILITIES

CURRENT LIABILITIES

Accounts Payable - Operations	222,440
Accounts Payable - Construction	1,304,901
Retainage Payable	505,694
Accrued Expenses	30,519
Accrued Interest	38,136
Accrued Wages	51,195
Accrued Compensated Absences	157,699
Bonds Payable	820,000

Total Current Liabilities	<u>3,130,584</u>
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NONCURRENT LIABILITIES

Bonds Payable	3,530,000
Deposits from Leasees	7,250
Accrued Compensated Absences	6,799

Total Noncurrent Liabilities	<u>3,544,049</u>
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TOTAL LIABILITIES	<u>6,674,633</u>
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NET POSITION

Net Investment in Capital Assets	65,756,371
Restricted - Passenger Facility Charge	898,330
Unrestricted	<u>5,461,536</u>

TOTAL NET POSITION	<u><u>\$ 72,116,237</u></u>
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The accompanying notes are an integral part of these basic financial statements.

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING REVENUES	
Airline Revenue	
Landing Fees	\$ 533,275
Rents	1,502,147
Total Airline Revenue	<u>2,035,422</u>
Non-Airline Revenues	
General Aviation	796,602
Air Cargo	66,459
Parking Revenue	1,868,305
Rental Car Revenue	822,556
Terminal Concessions	105,798
Terminal Space Rents	111,559
Other Revenues	273,638
Total Non-Airline Revenues	<u>4,044,917</u>
Total Operating Revenues	<u>6,080,339</u>
OPERATING EXPENSES	
Aviation Area	
Utilities	10,974
Maintenance - Buildings	45,683
Power Vault - Diesel Fuel and Maintenance	9,422
Runway, Taxiway and Field Maintenance	7,019
Lighting and Electrical Maintenance	13,775
Field and Gate Maintenance	3,089
Snow and Ice Control	26,054
Ramps and Aprons	8,625
Environmental Compliance	18,296
Total Aviation Area	<u>142,937</u>
Terminal Area	
Electricity	313,400
Heating Fuel	23,995
Water and Sewer	76,803
Telephone	10,734
Electrical Maintenance	15,836
HVAC Maintenance	15,865
Building Repairs and Parts	44,430
Plumbing	14,362
Equipment and Furnishings	9,380
Roadway, Parking Lots and Field Maintenance Expense	39,491
Elevator Contract	30,060
Trash Removal Contract	21,700
Other Contractual Services	12,089
Total Terminal Area	<u>628,145</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING EXPENSES (CONTINUED)

Air Cargo Center		
Utilities		18,088
Heating Fuel		772
Trash Removal		1,639
Repairs and Maintenance		7,783
Total Air Cargo Center		<u>28,282</u>
Other Properties		
Office Annex		
Utilities	10,104	
Heating Fuel	1,069	
Total Office Annex	<u>11,173</u>	
Other Property - Land and Buildings	<u>987</u>	
Total Other Properties		<u>12,160</u>
General Area - Public Safety		
Salaries		652,842
FICA Contributions and Unemployment		49,371
Retirement		87,565
Insurance		168,560
General Personnel Expense		22,492
Fire Hall Expense		7,643
Security - Parking and Identification		11,920
Medical Supplies		1,404
Vehicle Fuel		16,079
Supplies		2,720
Equipment Maintenance		23,194
Training		17,403
Uniforms		12,803
Dues and Subscriptions		1,166
Office Supplies		3,535
Telephone		6,716

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING EXPENSES (CONTINUED)

General Area - Public Safety (Continued)

Access Control	43,467
Seminars / Conferences	765
Medical and Psychological Testing	715
Total General Area - Public Safety	<u>1,130,360</u>

General Area - Maintenance

Salaries	370,953
FICA Contributions and Unemployment	27,639
Retirement	68,855
Insurance	121,364
General Personnel Expense	3,362
Utilities	15,342
Heating Fuel	2,108
Repairs and Maintenance	45,339
Gas and Oil	31,777
Small Tools	3,264
Uniforms - Maintenance	5,476
Supplies	12,407
Training	4,199
Total General Area - Maintenance	<u>712,085</u>

General Area - Janitorial

Salaries	237,745
FICA Contributions and Unemployment	17,540
Retirement	33,466
Insurance	43,959
General Personnel Expense	4,181
Supplies	32,517
Repairs and Maintenance	870
Uniforms	3,621
Snow Removal and Other	697
Total General Area - Janitorial	<u>374,596</u>

General Area - Airport Services

Salaries	47,634
FICA Contributions and Unemployment	3,657
Retirement	6,545
Insurance	5,709
General Personnel Expense	814
Supplies	2,419
Uniforms	355
Total General Area - Airport Services	<u>67,133</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING EXPENSES (CONTINUED)

Marketing	
Salaries	121,919
FICA Contributions and Unemployment	9,158
Retirement	21,949
Insurance	16,188
General Personnel Expense	869
Advertising	24,538
Research and Development	14,222
Consulting Services	20,359
Marketing Initiative	172,858
Program Materials	9,909
Airline Relations	730
Community Relations	61,363
Travel	24,632
Professional Affiliations	760
Postage	195
Office Supplies	9,533
Total Marketing	<u>509,182</u>

Administrative	
Salaries	495,917
FICA Contributions and Unemployment	38,229
Retirement	91,309
Medical Insurance	76,910
General Personnel Expense	31,014
Accounting	50,180
Bad Debt Expense	8,397
Settlements and Judgments	44,000
Legal	109,347
Insurance	215,897
Dues and Subscriptions	17,356
Engineering Services	2,260
Consulting Services	61,829
Office Supplies	28,837
Telephone	13,910
Maintenance	11,830
Seminars and Conferences	13,210
General Administrative Expense	18,499
Postage and Handling	2,688
Miscellaneous Equipment	11,967
Total Administrative	<u>1,343,586</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING EXPENSES (CONTINUED)

Air Cargo and Trade Development		
Foreign Trade Zone		
Marketing Initiatives	1,549	
Contract Services	250	
Professional Affiliations	2,427	
Total Foreign Trade Zone	<u>4,226</u>	
Administrative		
Travel / Auto	5,852	
Supplies, Furniture and Fixtures	1,980	
Total Administrative	<u>7,832</u>	
Personnel		
Salaries	63,557	
FICA Contributions and Unemployment	4,763	
Medical Insurance	15,848	
General Personnel Expense	460	
Retirement Expense	11,429	
Total Personnel	<u>96,057</u>	
Total Air Cargo and Trade Development		<u>108,115</u>
Parking		
Salaries		189,426
FICA Contributions and Unemployment		16,142
General Personnel Expense		12,813
Uniforms		2,131
Supplies		986
Ticket and Printing Expense		1,810
Office Supplies		2,181
Repairs and Maintenance		5,889
License and Fees		382
Liability Insurance		471
Utilities		6,318
Postage and Freight		87
Telephone		1,989
Financial Services		1,674
Credit Card Discount		35,795
Miscellaneous		3,477
Management Fee		25,363
Total Parking		<u>306,934</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

OPERATING EXPENSES (CONTINUED)

Engineering	
Salaries	22,028
FICA Contributions and Unemployment	5,013
Retirement	12,744
Insurance	10,521
General Personnel Expense	510
Supplies	378
Equipment Maintenance	2,476
Miscellaneous	1,441
Training and Seminars	1,666
Dues and Subscriptions	500
Total Engineering	<u>57,277</u>
 RAC Service Facility	
Utilities	<u>60,057</u>
Total RAC Service Facility	<u>60,057</u>
 Business Development	
Programs and Materials	<u>12,571</u>
Total Business Development	<u>12,571</u>
 Ground Handling Services	
Salaries	134,562
FICA Contributions and Unemployment	10,172
Retirement	9,487
Insurance	10,520
General Personnel Expense	3,300
Supplies	881
Equipment and Maintenance	2,995
Miscellaneous	4,501
Total Ground Handling Services	<u>176,418</u>
 Total Operating Expenses	<u>5,669,838</u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2013

Operating Income before Depreciation	410,501
Less: Depreciation	<u>3,510,733</u>
Operating Loss	<u>(3,100,232)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest Income	21,939
Interest Expense	(258,189)
Proceeds from Sale of Assets	9,745
Amortization of Loss on Refunding	(8,884)
PFC Revenue	771,260
CFC Revenue	381,681
Total Nonoperating Revenues (Expenses)	<u>917,552</u>
Loss before Capital Contributions	<u>(2,182,680)</u>
CAPITAL CONTRIBUTIONS	
Federal Grant Revenue	6,831,868
State Grant Revenue	1,028,050
Total Capital Contributions	<u>7,859,918</u>
CHANGE IN NET POSITION	<u>5,677,238</u>
NET POSITION, JULY 1	66,503,054
Prior Period Adjustment - Accounting Change	<u>(64,055)</u>
NET POSITION, JULY 1 (Restated)	<u>66,438,999</u>
NET POSITION, JUNE 30	<u><u>\$ 72,116,237</u></u>

The accompanying notes are an integral part of these basic financial statements.

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 6,202,306
Cash Payments to Suppliers for Goods and Services	(2,033,952)
Cash Payments to Employees for Services	(2,322,415)
Cash Payments for Employee Benefits	(1,072,505)
Cash Payments for Insurance	(236,705)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	536,729
	<hr/>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition and Construction of Capital Assets	(7,111,372)
Proceeds from Sale of Assets	9,745
Capital Grants Received	7,337,108
PFC Funds Received	792,157
CFC Funds Received	381,681
Interest Paid	(263,969)
Principal Paid on Long-Term Debt	(785,000)
	<hr/>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	360,350
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(459,224)
Interest Received	21,939
	<hr/>
NET CASH USED FOR INVESTING ACTIVITIES	(437,285)
	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	459,794
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR	2,843,672
	<hr/>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR	<u><u>\$ 3,303,466</u></u>

(Continued)

TRI-CITIES AIRPORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2013

RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating Loss	\$ (3,100,232)
Adjustments	
Depreciation	3,510,733
(Increase) Decrease in Assets	
Accounts Receivable	155,102
Prepaid Expense	(20,809)
Increase (Decrease) in Liabilities	
Accounts Payable	6,383
Accrued Expenses	4,519
Accrued Vacation	14,913
Accrued Wages	774
Accrued Compensation	(1,519)
Deferred Revenue	(33,135)
	<u>536,729</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 536,729</u>
RECONCILIATION TO STATEMENT OF NET POSITION	
Cash on Hand	\$ 3,109
Cash in Bank - Checking	1,178,618
Cash in Bank - Passenger Facility Charges	339,780
Cash in Bank - Customer Facility Charges	216,634
Cash in Bank - Escrow	402,559
Cash on Deposit with other Governmental Entities - Construction	104,006
Cash on Deposit with other Governmental Entities - Debt Service Reserve	1,058,760
	<u>3,303,466</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,303,466</u>

The accompanying notes are an integral part of these basic financial statements.

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Notes to the Basic Financial Statements



TRI-CITIES REGIONAL AIRPORT
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TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Tri-Cities Airport Authority (the Authority) is reported as an enterprise fund, a proprietary fund type to account for the operation of the Airport facility. The accompanying basic financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred regardless of the timing of related cash flows. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Reimbursements of operating expenses by the federal and state governments are reported as operating revenues. Operating expenses for the Authority include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses or capital contributions.

Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

Restricted assets are held to satisfy bond principal and interest sinking fund requirements, insurance claims greater than coverage, or are otherwise held for certain capital improvement projects.

Accounts Receivable

Accounts receivable are reported at the net realizable amounts from third-party payors, lease payments, and other services rendered. Accounts receivable are reported net of an allowance for uncollectible amounts. The allowance for uncollectible amounts is based on prior collection history of receivables, known collection risks and environmental factors, including the age of the receivables.

Capital Assets and Depreciation

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, runways, parking lots, and similar items), are defined by the Authority as assets with an initial individual cost of \$3,000 and greater. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows:

Runways, Roads, etc.	20 years
Parking Lot	20 years
Terminal Building	30 years
Other Buildings	30 years
Equipment and Vehicles	5-20 years

Investments and Cash Equivalents

Investments are recorded at fair values as determined by quoted market prices at the Statement of Net Position date. Investments that have an original maturity of three months or less are considered cash equivalents for purposes of the Statement of Cash Flows.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority only has one item that qualifies for reporting in this category. It is the deferred bond refunding costs reported in the Statement of Net Position. Deferred bond refunding costs result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has no items that qualify for reporting in this category.

Net Position

Net Position is the difference between assets, deferred outflows, liabilities and deferred inflows. The net investment in capital assets, capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net Position is reported as restricted when there are legal limitations on its use by external restrictions imposed by other governments, creditors or grantors.

Budgets

Under the by-laws of the Authority, management must submit an annual operating budget to the Tri-Cities Airport Board of Commissioners for approval. In addition, management must submit to the Commissioners annually a capital improvements budget.

The Authority is not required to demonstrate statutory compliance with annual operating or capital improvements budgets. Accordingly, budgetary data is not included in the basic financial statements. Unexpended appropriations lapse at year end.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting Changes

In the fiscal year ended June 30, 2013, the Authority implemented the provisions of two new Governmental Accounting Standards Board (GASB) Statements. GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, collectively recognized certain elements of the financial statements as a consumption of net assets by the entity that are applicable to a future reporting period. These financial elements are distinct from assets and liabilities. As a result of the adoption of these Statements, 1) the Authority now uses the term "Net Position" within the financial statements, 2) deferred bond refunding costs were reclassified from noncurrent other liabilities to deferred outflows of resources on the Statement of Net Position, 3) debt issuance costs were reported as a Prior Period Adjustment (see Note 16). In the future, the latter will be expensed in the fiscal year incurred.

There is one new GASB statement that has been issued that will be effective in a future year. The Authority has not yet evaluated the effects, if any, of adopting this standard.

NOTE 2 - GENERAL INFORMATION

The Authority is jointly governed by the following governmental agencies:

	<u>Representation</u>
Washington County, Tennessee	3 Commissioners
City of Johnson City, Tennessee	3 Commissioners
Sullivan County, Tennessee	2 Commissioners
City of Kingsport, Tennessee	2 Commissioners
City of Bristol, Tennessee	1 Commissioner
City of Bristol, Virginia	1 Commissioner

NOTE 3 - DEPOSITS AND INVESTMENTS

Cash on the Statement of Net Position and Statement of Cash Flows include cash on hand, demand deposits, and certificates of deposit with an original maturity of three months or less. There are some certificates of deposit that have an original maturity of greater than three months. These are shown as noncurrent restricted assets.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Certificates of Deposit are covered by Federal Deposit Insurance Corporation (FDIC) insurance or by the state collateral pool. The Authority is exposed to concentration of credit risk by placing its deposits in financial institutions. To mitigate custodial credit risk, the Authority ensures that bank balances within excess of the FDIC coverage are held in financial institutions which are members of the State of Tennessee bank collateral pool to ensure excess balances are fully collateralized at all times.

DEPOSITS - All deposits with financial institutions other than savings and loan associations must be collateralized in an amount equal to 105% of the fair value of uninsured deposits. Deposits with savings and loan associations must be collateralized by one of the following methods: 1) By an amount equal to 110% of the fair value of uninsured deposits if the collateral is of the same character as that required for other financial institutions; 2) By an irrevocable letter of credit issued by the Federal Home Loan Bank; or 3) By providing notes secured by first mortgages or first deeds of trust upon residential real property located in Tennessee. The promissory notes must be in an amount equal to 150% of the amount of uninsured deposits.

NOTE 4 - DEBT SERVICE RESERVE

The debt service account was funded from restricted assets of the Authority. The cash is on deposit with the Sullivan County Trustee and is to be invested in an interest bearing account. These monies are to be used only to the extent that the funds in the principal and interest account are insufficient to cover principal and interest requirements for the bonds described in Note 9.

NOTE 5 - PREPAID EXPENSES

Payments made for insurance that will benefit periods beyond June 30, 2013 are recorded as prepaid. Prepaid expenses consisted of the following:

Insurance	<u>\$88,158</u>
Total Prepaid Expenses	<u>\$88,158</u>

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - CAPITAL ASSETS AND DEPRECIATION

Capital Asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated				
Land	\$ 14,938,571	356,355	-	15,294,926
Construction in Progress	6,854,917	7,822,957	(1,816,223)	12,861,651
Total Capital Assets, Not Being Depreciated	21,793,488	8,179,312	(1,816,223)	28,156,577
Capital Assets, Being Depreciated				
Runways and Roads	65,986,077	1,004,302	-	66,990,379
Parking Lot	4,936,487	-	-	4,936,487
Terminal Building	16,104,086	27,746	-	16,131,832
Other Buildings	10,438,463	-	-	10,438,463
Equipment and Vehicles	9,573,542	432,052	-	10,005,594
Master Plans	612,712	42,812	-	655,524
Total Capital Assets, Being Depreciated	107,651,367	1,506,912	0	109,158,279
Accumulated Depreciation				
Runways and Roads	(39,624,834)	(2,053,464)	-	(41,678,298)
Parking Lot	(2,002,834)	(227,875)	-	(2,230,709)
Terminal Building	(8,856,273)	(549,438)	-	(9,405,711)
Other Buildings	(5,020,066)	(303,119)	-	(5,323,185)
Equipment and Vehicles	(7,477,901)	(361,877)	-	(7,839,778)
Master Plans	(485,888)	(14,960)	-	(500,848)
Total Accumulated Depreciation	(63,467,796)	(3,510,733)	0	(66,978,529)
Net Capital Assets, Being Depreciated	44,183,571	(2,003,821)	0	42,179,750
Net Capital Assets	\$ 65,977,059	6,175,491	(1,816,223)	70,336,327

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 7 - RESTRICTED ASSETS

The Authority established a self-insurance contingency fund during the fiscal year ended June 30, 1987. The plan required initial funding of \$500,000. During the fiscal year ended June 30, 1990, an additional \$200,000 was added. Funding for successive years is subject to a majority vote of the Authority. Withdrawals from the fund will only be allowed by a two-thirds vote of the Authority. The balance in the money market and certificates of deposit at June 30, 2013 is \$1,540,531.

Money received from the airlines for passenger facility charges is restricted for use on capital improvement projects approved by the Federal Aviation Administration or to repay debt associated with these projects.

A customer facility charge assessed on rental car contracts is restricted for use on capital improvement projects associated with the rental car enterprises.

Cash on deposit with other governmental entities is restricted for use on capital improvement projects.

Cash on deposit is restricted for use on payment of construction escrows.

NOTE 8 - ACCRUED COMPENSATION

Employees earn 40 hours of vacation at the completion of six months of service; 80 additional hours after completion of one year; 120 hours after five years, 160 hours after 12 years; and 200 hours after 25 years of continuous employment. Vacation time is awarded on the anniversary date and should be used during the year; however, unused vacation time of up to 120 hours can be carried forward into the next year. The carry forward amount cannot accumulate for more than a one year period and the carry forward balance cannot exceed 120 hours at any time.

Employees earn one sick day per month to a maximum of 10 per year. An unlimited number of days may be accumulated toward retirement; however, no lump sum payment will be made by the Authority for accumulated sick days.

Employees, excluding supervisors and senior staff, may accumulate additional leave for overtime hours worked in lieu of immediate payment. This amount is accrued at the present pay rate multiplied by those hours, which are adjusted to reflect time and a half.

NOTE 9 - LONG-TERM DEBT

Airport Revenue and Tax Refunding, Series 2003 Bonds

The \$5,540,000 Airport Revenue and Tax Refunding bonds, Series 2003, were issued August 1, 2003 by Sullivan County, Tennessee for the purpose of providing funds to refinance in advance of its maturity the Authority's outstanding Airport Revenue and Tax Bonds, Series 1995 dated July 1, 1995, maturing May 1, 2015.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Airport Revenue and Tax Refunding, Series 2003 Bonds (Continued)

The bonds are payable primarily from and secured by a pledge and assignment of PFC and operating revenues from the Authority. The bonds will mature serially each May 1, beginning May 1, 2004 and ending May 1, 2015. Interest rates are scheduled and vary from 3.25% to 4.35%. Interest payments are due semi-annually on May 1st and November 1st, beginning November 1, 2003.

Airport Revenue and Tax, Series 2003 Bonds

On August 1, 2003, Sullivan County, Tennessee issued \$5,000,000 of Airport Revenue and Tax Bonds, Series 2003, for the purpose of providing funds to construct improvements to the Airport, consisting of, but not limited to, the construction of additional parking facilities, construction of a rental car Ready/Return Area, construction of a rental car service facility, and construction of a new cargo center in and for the Airport, and to pay the costs incident thereto and costs incident to the issuance, sale and delivery of the bonds.

The bonds are payable primarily from and secured by a pledge and assignment of CFC and operating revenues from the Authority. The Bonds will mature serially each May 1, beginning May 1, 2005 and ending May 1, 2023. Interest rates vary from 4.25% to 5.80%. Interest payments are due semi-annually on May 1st and November 1st, beginning November 1, 2003.

Total Airport Revenue and Tax bonds debt service requirements to maturity are as follows:

Year Ending June 30	Principal Payments	Annual Interest	Total Debt Service
2014	\$ 820,000	228,816	1,048,816
2015	845,000	191,777	1,036,777
2016	275,000	152,290	427,290
2017	285,000	137,440	422,440
2018	300,000	122,050	422,050
2019-2023	1,825,000	303,890	2,128,890
	\$ 4,350,000	1,136,263	5,486,263

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Airport Revenue and Tax Refunding bonds, issued August 1, 2003, debt service requirements to maturity are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total Debt Service
2014	\$ 570,000	49,673	619,673
2015	585,000	25,447	610,447
	<u>\$ 1,155,000</u>	<u>75,120</u>	<u>1,230,120</u>

Airport Revenue and Tax bonds issued, August 1, 2003, debt service requirements to maturity are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total Debt Service
2014	\$ 250,000	179,143	429,143
2015	260,000	166,330	426,330
2016	275,000	152,290	427,290
2017	285,000	137,440	422,440
2018	300,000	122,050	422,050
2019-2023	1,825,000	303,890	2,128,890
	<u>\$ 3,195,000</u>	<u>1,061,143</u>	<u>4,256,143</u>

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Long-term liability activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Revenue Bonds Payable	\$ 5,135,000	-	(785,000)	4,350,000	820,000
Compensated Absences	151,104	107,357	(93,963)	164,498	164,498
Total Long-Term Liabilities	<u>\$ 5,286,104</u>	<u>107,357</u>	<u>(878,963)</u>	<u>4,514,498</u>	<u>984,498</u>

NOTE 10 - PENSION PLAN

PLAN DESCRIPTION

Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Authority participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The Authority withdrew from TCRS effective July 1, 2012. Employees hired after the date of withdrawal are not eligible to participate in TCRS. Employees active as of the withdrawal date will continue to accrue salary and service credit in TCRS. The employer remains responsible for the pension liability for employees that were active as of the withdrawal date and for retirees of the employer.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 - PENSION PLAN (CONTINUED)

FUNDING POLICY

The Authority has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.00% of annual covered payroll.

The Authority is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2013 was 17.89% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the Authority is established and may be amended by the TCRS Board of Trustees.

ANNUAL PENSION COST

For the fiscal year ending June 30, 2013, the Authority's annual pension cost of \$341,646 to TCRS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the July 1, 2011 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.50% a year compounded annually, (b) projected 3.00% annual rate of inflation (c) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.50% annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.50% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The Authority's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 9 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2013	\$341,646	100.00%	\$0
June 30, 2012	\$378,316	100.00%	\$0
June 30, 2011	\$348,867	100.00%	\$0

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 - PENSION PLAN (CONTINUED)

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2011, the most recent actuarial valuation date, the plan was 83.84% percent funded. The actuarial accrued liability for benefits was \$7.64 million, and the actuarial value of assets was \$6.41 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.24 million. The covered payroll (annual payroll of active employees covered by the plan) was \$1.89 million, and the ratio of the UAAL to the covered payroll was 65.35%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar Amounts in Thousands)

	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets	(AAL) Actuarial Accrued Liability	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2011	\$ 6,408	\$ 7,643	\$ 1,235	83.84%	\$ 1,891	65.35%

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 - RISK MANAGEMENT ACTIVITIES

The Authority carries insurance coverage through ACE and Cincinnati Insurance Company for general liability, commercial property, business automobile liability, and business interruption/loss of income. Workers compensation insurance is provided through USAIG. Additional coverage for public officials is provided by AIG.

The Authority has an investment account restricted as a self-insurance contingency fund to cover any claims not covered by insurance. There have been no claims paid from this fund over the past nine fiscal years (See Note 7). In addition, the Authority provides medical insurance through United Healthcare. No portion of health insurance is self-funded. No settlements exceeded insurance coverage for each of the past eight fiscal years.

NOTE 12 - LITIGATION

The Authority is involved in various legal proceedings arising in the normal course of business. To the extent the outcome of such litigation has been determined to result in probable loss to the Authority, such loss for which the Authority is responsible for funding has been accrued in the accompanying financial statements. Litigation where loss to the Authority is reasonably possible has not been accrued; however, the Authority and Attorney for the Authority have not identified any events which appear both probable and measurable.

The Authority holds a private insurance policy which has an aggregate deductible of \$25,000; therefore, the Authority has accrued \$25,000 that is the maximum liability to the Authority.

The Authority and Attorney for the Authority believes that the various asserted claims and litigation will not materially affect its financial position, although no assurance can be given with respect to the ultimate outcome of any such claims or litigation.

TRI-CITIES AIRPORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 13 - DISADVANTAGED-OWNED BUSINESS EXPENSES

The Authority's disadvantaged-owned business goals were as follows:

<u>Project</u>	<u>Goal</u>	<u>Actual</u>
AIP-3-47-004-54	5.30%	7.30%
AIP-3-47-004-55	4.30%	3.50%
AIP-3-47-004-60	4.90%	7.20%
AIP-3-47-004-62	4.90%	5.50%
AIP 3-47-004-64	4.90%	In process

NOTE 14 - ECONOMIC DEPENDENCY

The Authority obtains substantially all of its funding for capital projects and improvements from grants provided by the Federal Aviation Administration and State of Tennessee Department of Transportation Aeronautics Division.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

The Authority has entered into approximately \$19,400,000 of construction contract commitments that had begun and were in-process at fiscal year-end 2013. These construction contract commitments will be paid primarily with capital grants.

NOTE 16 - PRIOR PERIOD ADJUSTMENT

During the fiscal year ended June 30, 2013, the Authority early implemented GASB Statement No. 65 which required restatement of the bond issuance costs. Under this statement, all future bond issuance costs, other than the cost of insurance, will be expensed in the fiscal year the cost is incurred. Under prior statements, the bond issuance costs had been amortized, and therefore, the remaining bond issuance costs were written off to unrestricted net position.

Required Supplemental Schedule



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TRI-CITIES AIRPORT AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For the Fiscal Year Ended June 30, 2013

(Dollar Amounts in Thousands)						
	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
		(AAL)				
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	(UAAL) Unfunded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
July 1, 2011	\$ 6,408	\$ 7,643	\$ 1,235	83.84%	\$ 1,891	65.35%
July 1, 2009	\$ 5,296	\$ 5,342	\$ 46	99.14%	\$ 2,041	2.24%
July 1, 2007	\$ 5,043	\$ 5,100	\$ 57	98.88%	\$ 1,904	2.99%

The statute governing TCRS allows the Board of Trustees to reestablish the unfunded accrued liability for actuarial gains and losses. For the July 1, 2011 actuarial valuation, the Board reestablished the unfunded actuarial accrued liability. The cost of the plan has two components: normal cost and supplemental liability. The normal cost is the cost of the next year of service and the supplemental liability is the unfunded cost of past service. The supplemental liability can roll forward from valuation to valuation or can be reestablished. In a year, the liability is rolled forward, the past service cost is reported as normal cost. In a year the liability is reestablished, the past service cost is reported as supplemental liability in the Present Value of Prospective Contributions Payable calculations. The normal cost component is not included in the UAAL above. The reestablishment resulted in the large increase to the Unfunded AAL and UAAL as a Percentage of Covered Payroll calculation and alters the amortization period as of July 1, 2011. The Total Present Value of Prospective Contributions Payable is illustrated in the following table:

	(a)	(b)	(a) + (b)
		(UAAL)	Present Value
Actuarial Valuation Date	Normal Cost	Supplemental Liability	of Prospective Contributions Payable by Employer
07/01/11	\$ 1,195	\$ 1,235	\$ 2,430
07/01/09	\$ 3,048	\$ 46	\$ 3,094
07/01/07	\$ 3,010	\$ 57	\$ 3,067

See Independent Auditors' Report.

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Supplemental Schedules



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TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

CFDA Number	Grantor Agency	Grant Number	Program Description	Balance July 1, 2012	Cash Receipts	Expenditures	¹ Adjustments	Balance June 30, 2013 ²
20.106	Federal Aviation Administration	AIP 3-47-0004-54	Terminal Ramp Reconstruction - Phase III, Security Fence Rehab - Phase II and Friction Decelerometer	\$ 12,809	20,570	3,525	4,236	-
		AIP 3-47-0004-55	Runway Rehabilitation and Road Relocation Design	94,016	92,489	20,560	20,810	42,897
		AIP 3-47-0004-60	Sinkhole Repairs, Signage, Building Demo and Snow Plow	26,282	28,613	561	1,770	-
		AIP 3-47-0004-61	Terminal Building Access Control, High Speed Snow Broom, Fingerprint Machine and Airfield Improvements	159,801	161,078	32,911	-	31,634
		AIP 3-47-0004-62	Hamilton Road Relocation and Taxiway Romeo Construction	565,025	3,405,499	3,434,768	-	594,294
		AIP 3-47-0004-56 (AIP 63)	Runway 27, ARFF Firesuits, Terminal Ramp Access, Grande Harbor Property	29,519	1,270,312	866,922	640,455	266,584
		AIP 3-47-0004-64	Runway 5/23 Rehab; Airfield Runway Aero Survey	-	1,384,434	1,805,350	-	420,916
				<u>\$ 887,452</u>	<u>6,362,995</u>	<u>6,164,597</u>	<u>667,271</u>	<u>1,356,325</u>

¹ This Schedule reflects the federal grantor's share of the expenditures.

² These balances represent amounts due from the grantor.

³ These balances represent an amendment to the approved federal budget or prior year expenditures.

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Tri-Cities Airport Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-54
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Ramp Reconstruction - Phase III	\$ 209	2,162,182	2,190,264	28,082	-
Security Fence Rehab - Phase II	3,502	1,084,984	1,061,406	(23,578)	-
Friction Decelerometer	-	4,668	4,650	(18)	-
	<u>\$ 3,711</u>	<u>3,251,834</u>	<u>3,256,320</u>	<u>4,486</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 3,525	3,089,242	3,097,754	8,512	-
State Grant (2.5%)	-	79,283	79,283	-	-
Tri-Cities Airport Authority	186	83,309	79,283	(4,026)	-
	<u>\$ 3,711</u>	<u>3,251,834</u>	<u>3,256,320</u>	<u>4,486</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-55
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehabilitation - Design	\$ 17,236	398,926	408,847	9,921	-
Road Relocation - Design	4,406	590,614	579,937	(10,677)	-
	<u>\$ 21,642</u>	<u>989,540</u>	<u>988,784</u>	<u>(756)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 20,560	939,345	939,345	-	-
State Grant (2.5%)	541	20,557	26,933	6,376	-
Tri-Cities Airport Authority	541	29,638	22,506	(7,132)	-
	<u>\$ 21,642</u>	<u>989,540</u>	<u>988,784</u>	<u>(756)</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-60
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Snow Plow and Building Demo	\$ 4,281	1,825,267	1,821,577	(3,690)	-
	<u>\$ 4,281</u>	<u>1,825,267</u>	<u>1,821,577</u>	<u>(3,690)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 561	1,730,498	1,730,498	-	-
State Grant (2.5%)	107	34,312	45,539	11,227	-
Tri-Cities Airport Authority	<u>3,613</u>	<u>60,457</u>	<u>45,540</u>	<u>(14,917)</u>	<u>-</u>
	<u>\$ 4,281</u>	<u>1,825,267</u>	<u>1,821,577</u>	<u>(3,690)</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-61
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Access Control Fingerprint Equipment	\$ 3,335	19,483	11,503	(7,980)	-
Terminal Access Control Improvement	31,308	221,345	219,660	(1,685)	-
Rwy 23 PAPI PCU Relocation	-	19,530	16,830	(2,700)	-
High Speed Runway Broom	-	101,736	134,438	32,702	-
	<u>\$ 34,643</u>	<u>362,094</u>	<u>382,431</u>	<u>20,337</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 32,911	343,990	363,309	19,319	-
State Grant (2.5%)	866	9,052	9,561	509	-
Tri-Cities Airport Authority	866	9,052	9,561	509	-
	<u>\$ 34,643</u>	<u>362,094</u>	<u>382,431</u>	<u>20,337</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-62
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Hamilton Road Relocation and Taxiway Romeo Construction	\$ 3,615,546	4,697,547	10,233,553	5,536,006	-
	<u>\$ 3,615,546</u>	<u>4,697,547</u>	<u>10,233,553</u>	<u>5,536,006</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 3,434,768	4,462,669	9,721,875	5,259,206	-
State Grant (2.5%)	90,389	117,322	255,839	138,517	-
Tri-Cities Airport Authority	<u>90,389</u>	<u>117,556</u>	<u>255,839</u>	<u>138,283</u>	<u>-</u>
	<u>\$ 3,615,546</u>	<u>4,697,547</u>	<u>10,233,553</u>	<u>5,536,006</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-56 (AIP 63)
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 27 RSA Improvement	\$ 531,794	554,197	424,635	(129,562)	-
ARFF Equipment Replacement	55,008	56,738	55,953	(785)	-
Terminal Ramp Access Control	203,776	211,197	219,653	8,456	-
Grande Harbor Property	356,355	1,030,518	1,059,896	29,378	-
	<u>\$ 1,146,933</u>	<u>1,852,650</u>	<u>1,760,137</u>	<u>(92,513)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 866,922	1,536,896	1,536,896	-	-
State Grant (2.5%)	22,204	39,618	44,182	4,564	-
State Grant (5%)	12,939	13,397	67,439	54,042	-
Tri-Cities Airport Authority	244,868	262,739	111,620	(151,119)	-
	<u>\$ 1,146,933</u>	<u>1,852,650</u>	<u>1,760,137</u>	<u>(92,513)</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
FEDERAL GRANT AIP #3-47-0004-64
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehab	\$ 1,647,829	1,647,829	14,978,700	13,330,871	-
Airfield Runway Aero Survey	112	112	112,623	112,511	-
Rehab Design Construction	358,004	358,004	704,200	346,196	-
	<u>\$ 2,005,945</u>	<u>2,005,945</u>	<u>15,795,523</u>	<u>13,789,578</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (90%)	\$ 1,805,350	1,805,350	14,215,971	12,410,621	-
State Grant (5%)	100,298	100,298	789,776	689,478	-
Tri-Cities Airport Authority	100,297	100,297	789,776	689,479	-
	<u>\$ 2,005,945</u>	<u>2,005,945</u>	<u>15,795,523</u>	<u>13,789,578</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Fiscal Year Ended June 30, 2013

CFDA Number	Grantor Agency	Grant Number	Program Description	Balance July 1, 2012	Cash Receipts	Expenditures ¹	Adjustments ³	Balance June 30, 2013 ²
N/A	TN Dept. of Transportation	82-555-0424-04	Runway 5/23 Rehab Airfield Runway Aero Survey (AIP 64)	\$ -	-	100,298	-	100,298
		82-555-0723-04	Corp Hanger Taxilane Rehab	-	-	3,916	-	3,916
		82-555-0726-04	Terminal Roadway Improvements	-	-	646	-	646
		82-555-0799-04	Terminal Sound System Improvements	6,284	-	-	-	6,284
		82-555-1013-04 and	Professional Services	46,728	-	32,012	-	78,740
		82-555-1711-04	Terminal Ramp Reconstruction Phase II (AIP 53)	3,486	-	-	-	3,486
		82-555-1016-04	Road Relocation (AIP 55)	15,761	-	110	(1,110)	14,761
		82-555-1017-04	Runway 5/23 Rehabilitation (AIP 55)	8,437	5,743	431	(3,072)	53
		82-555-1025-04	Glycol and Fuel Farm	3,054	-	-	-	3,054
		82-555-1019-04	Terminal Ramp Phase II, Security Fence Phase II and	5,169	-	-	-	5,169
		82-555-1021-04	Aviation Drive Relocation	18	18	-	-	-
		82-555-1022-04	South Aviation Dev. Hanger	162,888	268,414	105,336	190	-
		82-555-1024-04	Wildlife Management Assessment	1,440	-	5,599	-	7,039
		82-555-1026-04	Sinkhole Repair and Signage (AIP 60)	947	-	-	-	947
		82-555-1100-04	Land Acquisition - Mapleview Farms (AIP 59)	9,516	10	-	-	9,506
		82-555-1105-04	Snow Plow and Building Demolition (AIP 60)	21,671	-	107	(11,320)	10,458
		82-555-1107-04	Hamilton Road Relocation and Taxiway Romeo					
		82-555-1114-04	Construction (AIP 62)	27,050	-	90,389	(117)	117,322
		82-555-1702-04	North Ramp Plane Port	223,037	232,880	13,285	-	3,442
		82-555-1703-04	G.A. Terminal Rehab	131,779	158,844	24,444	2,621	-
		82-555-1704-04	Obstruction Removal Runway 5	53,892	52,630	-	-	1,262
		82-555-1709-04	Mowers and Belt Loader	82,245	82,245	-	-	-
		82-555-1713-04	Terminal Building Improvements Phase III	19,142	-	305,798	-	324,940
		82-555-1112-04	Terminal Building Access Control, High Speed Snow Broom, Fingerprint Machine and Airfield Improvements (AIP 61)	8,186	-	866	(1,362)	7,690
		82-555-1717-04	Access Control Windows	77,516	72,098	2,932	-	8,350
		82-555-1718-04	Rwy 23 Tree Obstruction	-	-	155,525	-	155,525
		82-555-1719-04	Communications Center Relocation	-	-	14,229	-	14,229
		82-555-1721-04	Equipment Replacement	-	92,486	134,300	-	41,814
		82-555-1101-04	Grande Harbor (AIP 63)	-	8,773	8,909	16,854	16,990
		82-555-1722-04	Rwy 27 Displaced Threshold (AIP 63)	560	-	13,295	-	13,855
		82-555-1722-04	ARFF Fire Suits and Self Contained Air Tank (AIP 63)	458	-	12,939	-	13,397
				<u>\$ 909,264</u>	<u>\$ 974,141</u>	<u>\$ 1,025,366</u>	<u>\$ 2,684</u>	<u>\$ 963,173</u>

¹ This Schedule reflects the state grantor's share of the expenditures.

² These balances represent amounts due from the grantor.

³ These balances represent rounding, amendments or expired grants.

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0424-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehab	\$ 1,647,829	1,647,829	14,978,700	13,330,871	-
Airfield Runway Aero Survey	112	112	112,623	112,511	-
Rehab Design Construction	358,004	358,004	704,200	346,196	-
	<u>\$ 2,005,945</u>	<u>2,005,945</u>	<u>15,795,523</u>	<u>13,789,578</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (90%)	\$ 1,805,350	1,805,350	14,215,971	12,410,621	-
State Grant (5%)	100,298	100,298	789,776	689,478	-
Tri-Cities Airport Authority	100,297	100,297	789,776	689,479	-
	<u>\$ 2,005,945</u>	<u>2,005,945</u>	<u>15,795,523</u>	<u>13,789,578</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0723-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Corp Hanger Taxilane Rehab	\$ 4,122	4,122	287,000	282,878	-
	<u>\$ 4,122</u>	<u>4,122</u>	<u>287,000</u>	<u>282,878</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (95%)	\$ 3,916	3,916	258,300	254,384	-
Tri-Cities Airport Authority	206	206	28,700	28,494	-
	<u>\$ 4,122</u>	<u>4,122</u>	<u>287,000</u>	<u>282,878</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-0726-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Roadway Improvements	\$ 12,910	12,910	1,110,000	1,097,090	-
	<u>\$ 12,910</u>	<u>12,910</u>	<u>1,110,000</u>	<u>1,097,090</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (5%)	\$ 646	646	55,500	54,854	-
Tri-Cities Airport Authority (95%)	<u>12,264</u>	<u>12,264</u>	<u>1,054,500</u>	<u>1,042,236</u>	<u>-</u>
	<u>\$ 12,910</u>	<u>12,910</u>	<u>1,110,000</u>	<u>1,097,090</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1013-04 and 82-555-1711-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Professional Services	\$ 35,569	113,240	190,000	76,760	-
	<u>\$ 35,569</u>	<u>113,240</u>	<u>190,000</u>	<u>76,760</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 32,012	101,916	171,000	69,084	-
Tri-Cities Airport Authority	3,557	11,324	19,000	7,676	-
	<u>\$ 35,569</u>	<u>113,240</u>	<u>190,000</u>	<u>76,760</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1017-04 and 82-555-1025-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 5/23 Rehabilitation					
- Design	\$ 17,236	398,926	408,847	9,921	-
Road Relocation - Design	4,406	590,614	579,937	(10,677)	-
	<u>\$ 21,642</u>	<u>989,540</u>	<u>988,784</u>	<u>(756)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 20,560	939,345	939,345	-	-
State Grant (2.5%)	541	20,557	26,933	6,376	-
Tri-Cities Airport Authority	541	29,638	22,506	(7,132)	-
	<u>\$ 21,642</u>	<u>989,540</u>	<u>988,784</u>	<u>(756)</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1024-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
S. Aviation Dev. Hangar - Design	\$ -	282,668	264,660	(18,008)	-
S. Aviation Dev. Hangar - Construction	117,040	2,067,806	2,155,604	87,798	-
	<u>\$ 117,040</u>	<u>2,350,474</u>	<u>2,420,264</u>	<u>69,790</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 105,336	2,115,427	2,178,238	62,811	-
Tri-Cities Airport Authority	11,704	235,047	242,026	6,979	-
	<u>\$ 117,040</u>	<u>2,350,474</u>	<u>2,420,264</u>	<u>69,790</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1026-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Wildlife Hazard Assessment	\$ 8,594	42,373	40,000	(2,373)	-
	<u>\$ 8,594</u>	<u>42,373</u>	<u>40,000</u>	<u>(2,373)</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 5,599	36,000	36,000	-	-
Tri-Cities Airport Authority	<u>2,995</u>	<u>6,373</u>	<u>4,000</u>	<u>(2,373)</u>	<u>-</u>
	<u>\$ 8,594</u>	<u>42,373</u>	<u>40,000</u>	<u>(2,373)</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1107-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Snow Plow and Building Demo	\$ 4,281	1,825,267	1,821,577	(3,690)	-
	<u>\$ 4,281</u>	<u>1,825,267</u>	<u>1,821,577</u>	<u>(3,690)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 561	1,730,498	1,730,498	-	-
State Grant (2.5%)	107	34,312	45,539	11,227	-
Tri-Cities Airport Authority	<u>3,613</u>	<u>60,457</u>	<u>45,540</u>	<u>(14,917)</u>	<u>-</u>
	<u>\$ 4,281</u>	<u>1,825,267</u>	<u>1,821,577</u>	<u>(3,690)</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1114-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Hamilton Road Relocation and Taxiway Romeo Construction	\$ 3,615,546	4,697,547	10,233,553	5,536,006	-
	<u>\$ 3,615,546</u>	<u>4,697,547</u>	<u>10,233,553</u>	<u>5,536,006</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 3,434,768	4,462,669	9,721,875	5,259,206	-
State Grant (2.5%)	90,389	117,322	255,839	138,517	-
Tri-Cities Airport Authority	<u>90,389</u>	<u>117,556</u>	<u>255,839</u>	<u>138,283</u>	<u>-</u>
	<u>\$ 3,615,546</u>	<u>4,697,547</u>	<u>10,233,553</u>	<u>5,536,006</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1702-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
North Ramp Plane Port- Design	\$ 2,589	30,420	40,000	9,580	
North Ramp Plane Port- Construction	12,172	255,612	273,000	17,388	-
	<u>\$ 14,761</u>	<u>286,032</u>	<u>313,000</u>	<u>26,968</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 13,285	257,429	281,700	24,271	-
Tri-Cities Airport Authority	1,476	28,603	31,300	2,697	-
	<u>\$ 14,761</u>	<u>286,032</u>	<u>313,000</u>	<u>26,968</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1703-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
GA Terminal Rehab - Designs	\$ -	129,269	102,000	(27,269)	
GA Terminal Rehab - Construction	49,353	1,137,035	1,125,773	(11,262)	-
	<u>\$ 49,353</u>	<u>1,266,304</u>	<u>1,227,773</u>	<u>(38,531)</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 24,444	1,119,700	1,104,996	(14,704)	-
Tri-Cities Airport Authority	24,909	146,604	122,777	(23,827)	-
	<u>\$ 49,353</u>	<u>1,266,304</u>	<u>1,227,773</u>	<u>(38,531)</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-55-1713-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Terminal Building Improvements - Phase III Design	\$ 23,601	44,870	44,870	-	-
Terminal Building Improvements - Construction	299,534	299,534	613,158	313,624	
	<u>\$ 323,135</u>	<u>344,404</u>	<u>658,028</u>	<u>313,624</u>	<u>0</u>
<u>Share of Cost</u>					
<u>Design</u>					
State Grant (90%)	\$ 21,241	40,383	40,383	-	-
Tri-Cities Airport Authority	2,360	4,487	4,487	-	-
	<u>23,601</u>	<u>44,870</u>	<u>44,870</u>	<u>0</u>	<u>0</u>
<u>Construction</u>					
State Grant (95%)	284,557	284,557	582,500	297,943	-
Tri-Cities Airport Authority	14,977	14,977	30,658	15,681	-
	<u>299,534</u>	<u>299,534</u>	<u>613,158</u>	<u>313,624</u>	<u>0</u>
Total	<u>\$ 323,135</u>	<u>344,404</u>	<u>658,028</u>	<u>313,624</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1112-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Access Control Fingerprint Equipment	\$ 3,335	19,483	11,503	(7,980)	-
Terminal Access Control Improvement	31,308	221,345	219,660	(1,685)	-
Rwy 23 PAPI PCU Relocation	-	19,530	16,830	(2,700)	-
High Speed Runway Broom	-	101,736	134,438	32,702	-
	<u>\$ 34,643</u>	<u>362,094</u>	<u>382,431</u>	<u>20,337</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant (95%)	\$ 32,911	343,990	363,309	19,319	-
State Grant (2.5%)	866	9,052	9,561	509	-
Tri-Cities Airport Authority	866	9,052	9,561	509	-
	<u>\$ 34,643</u>	<u>362,094</u>	<u>382,431</u>	<u>20,337</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1717-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Access Control Windows	\$ 3,258	89,387	100,000	10,613	-
	<u>\$ 3,258</u>	<u>89,387</u>	<u>100,000</u>	<u>10,613</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 2,932	80,448	90,000	9,552	-
Tri-Cities Airport Authority	326	8,939	10,000	1,061	-
	<u>\$ 3,258</u>	<u>89,387</u>	<u>100,000</u>	<u>10,613</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1718-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Rwy 23 Tree Obstruction	\$ 172,806	172,806	187,000	14,194	-
	<u>\$ 172,806</u>	<u>172,806</u>	<u>187,000</u>	<u>14,194</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 155,525	155,525	173,150	17,625	-
Tri-Cities Airport Authority	<u>17,281</u>	<u>17,281</u>	<u>13,850</u>	<u>(3,431)</u>	<u>-</u>
	<u>\$ 172,806</u>	<u>172,806</u>	<u>187,000</u>	<u>14,194</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1719-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Communications Center Relocation Design	\$ 15,810	15,810	75,000	59,190	-
	<u>\$ 15,810</u>	<u>15,810</u>	<u>75,000</u>	<u>59,190</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 14,229	14,229	67,500	53,271	-
Tri-Cities Airport Authority	<u>1,581</u>	<u>1,581</u>	<u>7,500</u>	<u>5,919</u>	<u>-</u>
	<u>\$ 15,810</u>	<u>15,810</u>	<u>75,000</u>	<u>59,190</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1721-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013**

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Equipment Replacement	\$ 149,222	149,222	182,500	33,278	-
	<u>\$ 149,222</u>	<u>149,222</u>	<u>182,500</u>	<u>33,278</u>	<u>0</u>
<u>Share of Cost</u>					
State Grant (90%)	\$ 134,300	134,300	164,250	29,950	-
Tri-Cities Airport Authority	<u>14,922</u>	<u>14,922</u>	<u>18,250</u>	<u>3,328</u>	<u>-</u>
	<u>\$ 149,222</u>	<u>149,222</u>	<u>182,500</u>	<u>33,278</u>	<u>0</u>

See Independent Auditors' Report.

TRI-CITIES AIRPORT AUTHORITY
TENNESSEE GRANT 82-555-1722-04 and 82-555-1101-04
COMPARISON OF ACTUAL EXPENDITURES TO BUDGET
Cumulative for the Grant to June 30, 2013

<u>Project Description</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>	<u>Budget</u>	<u>Expenditures (Over) Under Budget</u>	<u>Questioned Costs</u>
Runway 27 RSA Improvement	\$ 531,794	554,197	424,635	(129,562)	-
ARFF Equipment Replacement	55,008	56,738	55,953	(785)	-
Terminal Ramp Access Control	203,776	211,197	219,653	8,456	-
Grande Harbor Property	356,355	1,030,518	1,059,896	29,378	-
	<u>\$ 1,146,933</u>	<u>1,852,650</u>	<u>1,760,137</u>	<u>(92,513)</u>	<u>0</u>
<u>Share of Cost</u>					
Federal Grant	\$ 866,922	1,536,896	1,536,896	-	-
State Grant (2.5%)	22,204	39,618	44,182	4,564	-
State Grant (5%)	12,939	13,397	67,439	54,042	-
Tri-Cities Airport Authority	244,868	262,739	111,620	(151,119)	-
	<u>\$ 1,146,933</u>	<u>1,852,650</u>	<u>1,760,137</u>	<u>(92,513)</u>	<u>0</u>

See Independent Auditors' Report.

**TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF PASSENGER FACILITY CHARGES,
INVESTMENT INCOME AND RELATED EXPENDITURES
For the Year Ended June 30, 2013**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Cash Balance, July 1, 2012					\$ 790,008
Passenger Facility Charges	184,485	212,108	197,767	212,382	806,742
Investment Income	818	927	1,031	850	3,626
Related Expenditures	(26,664)	(81,993)	(94,718)	(586,180)	<u>(789,555)</u>
Cash Balance, June 30, 2013					810,821
Receivable June 30, 2013					<u>87,509</u>
Restricted PFC Funds					<u>\$ 898,330</u>

See Independent Auditors' Report.

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See Independent Auditors' Report.

Statistical

- Unaudited financial and demographic information



TRI-CITIES REGIONAL AIRPORT
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STATISTICAL SECTION

The statistical section of the Comprehensive Annual Financial Report provides detailed information to enhance the understanding of the financial condition of the Tri-Cities Airport Authority. This statistical section is from the Airport Authority's fiscal year 2013 Comprehensive Annual Financial Report.

CONTENTS

Financial Trends

These schedules contain trend information to help the reader understand how the Airport's financial performance and condition have changed over time.

Revenue Capacity

These schedules contain information to help the reader understand the make-up of the Airport's revenue sources. The Airport Authority presents landed weights, square footage, public safety reimbursement and other airline related revenues along with parking rates to illustrate their primary revenue sources.

Debt Capacity

These schedules present information on the Airport's ability to meet their current debt service. The Airport Authority did not have any long-term bond debt prior to 1995. A schedule is included for Passenger Facility Charges and Customer Facility Charges as these two restricted revenue sources are the primary source for long-term bond debt service.

Demographic and Economic Information

These schedules offer demographic and economic indicators to show the environment within the surrounding area of the Airport.

Operating Information

These schedules contain service and infrastructure data to assist the reader in understanding how the Airport operates. The schedules presented include operating results, employees, capital assets, and source of funding for capital assets.

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Tri-Cities Airport Authority
Net Position and Changes in Net Position
Last Ten Fiscal Years (unaudited)

	<u>FY 2013</u>	<u>FY 2012</u>	<u>FY 2011</u>	<u>FY 2010</u>	<u>FY 2009</u>	<u>FY 2008</u>	<u>FY 2007</u>	<u>FY 2006</u>	<u>FY 2005</u>	<u>FY 2004</u>
OPERATING REVENUES	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,932	\$ 5,985,500	\$ 5,740,432	\$ 5,329,528
OPERATING EXPENSES	<u>5,669,838</u>	<u>5,422,576</u>	<u>5,347,016</u>	<u>5,101,080</u>	<u>5,431,972</u>	<u>5,415,059</u>	<u>5,415,312</u>	<u>5,484,486</u>	<u>5,333,989</u>	<u>4,902,809</u>
OPERATING INCOME BEFORE DEPRECIATION & AMORTIZATION	\$ 410,501	\$ 737,807	\$ 549,248	\$ 592,480	\$ 386,472	\$ 702,272	\$ 525,620	\$ 501,014	\$ 406,443	\$ 426,719
LESS: DEPRECIATION	3,510,733	3,319,171	3,148,163	3,053,364	2,855,601	2,889,942	2,730,172	2,381,018	2,282,141	2,372,815
AMORTIZATION	<u>-</u>	<u>13,500</u>	<u>13,500</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>13,501</u>	<u>109,760</u>
OPERATING LOSS	\$ (3,100,232)	\$ (2,594,864)	\$ (2,612,415)	\$ (2,474,385)	\$ (2,482,630)	\$ (2,201,171)	\$ (2,218,053)	\$ (1,893,505)	\$ (1,889,199)	\$ (2,055,856)
OTHER NON-OPERATING REVENUES (EXPENSES)	<u>917,552</u>	<u>1,253,169</u>	<u>936,264</u>	<u>809,692</u>	<u>781,318</u>	<u>878,429</u>	<u>557,579</u>	<u>619,715</u>	<u>482,993</u>	<u>103,322</u>
LOSS BEFORE CAPITAL CONTRIBUIONS	\$ (2,182,680)	\$ (1,341,695)	\$ (1,676,151)	\$ (1,664,693)	\$ (1,701,312)	\$ (1,322,742)	\$ (1,660,474)	\$ (1,273,790)	\$ (1,406,206)	\$ (1,952,534)
CAPITAL CONTRIBUTIONS	<u>7,859,918</u>	<u>4,821,258</u>	<u>3,640,905</u>	<u>6,774,016</u>	<u>7,485,388</u>	<u>4,330,262</u>	<u>3,067,094</u>	<u>7,646,827</u>	<u>2,672,004</u>	<u>3,399,266</u>
CHANGE IN NET POSITION	<u>\$ 5,677,238</u>	<u>\$ 3,479,563</u>	<u>\$ 1,964,754</u>	<u>\$ 5,109,323</u>	<u>\$ 5,784,076</u>	<u>\$ 3,007,520</u>	<u>\$ 1,406,620</u>	<u>\$ 6,373,037</u>	<u>\$ 1,265,798</u>	<u>\$ 1,446,732</u>
NET ASSETS AT YEAR-END										
NET INVESTMENT IN CAPITAL ASSETS	\$ 65,756,371	\$ 61,201,867	\$ 58,312,190	\$ 56,595,863	\$ 50,301,978	\$ 45,438,936	\$ 43,473,265	\$ 40,568,936	\$ 35,041,899	\$ 33,646,213
RESTRICTED - TENANT	-	-	-	-	-	-	-	-	-	1,654
RESTRICTED - PASSENGER FACILTY CHARGE	898,330	898,414	819,966	754,568	806,920	566,711	362,968	423,709	438,035	411,092
UNRESTRICTED	<u>5,461,536</u>	<u>4,402,773</u>	<u>3,891,335</u>	<u>3,708,306</u>	<u>4,840,516</u>	<u>4,159,691</u>	<u>3,321,585</u>	<u>4,758,553</u>	<u>3,898,227</u>	<u>4,053,404</u>
TOTAL NET POSITION	<u>\$ 72,116,237</u>	<u>\$ 66,503,054</u>	<u>\$ 63,023,491</u>	<u>\$ 61,058,737</u>	<u>\$ 55,949,414</u>	<u>\$ 50,165,338</u>	<u>\$ 47,157,818</u>	<u>\$ 45,751,198</u>	<u>\$ 39,378,161</u>	<u>\$ 38,112,363</u>

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 2:
Changes in Cash and Cash Equivalents
Last Ten Fiscal Years (unaudited)

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Cash Flows From Operating Activities										
Cash received from customers	\$ 6,202,306	\$ 5,971,326	\$ 5,753,038	\$ 5,702,985	\$ 5,796,913	\$ 6,140,734	\$ 5,883,726	\$ 6,043,541	\$ 5,667,282	\$ 5,363,959
Cash payments to suppliers	(2,033,952)	(1,868,890)	(1,955,865)	(1,163,492)	(1,952,309)	(1,563,139)	(2,119,801)	(2,276,146)	(2,121,032)	(2,031,536)
Cash payments to employees	(2,322,415)	(2,425,125)	(2,254,986)	(2,411,072)	(2,345,715)	(2,260,532)	(1,998,860)	(2,108,696)	(2,035,227)	(1,975,357)
Cash paid out for employee benefits	(1,072,505)	(1,060,836)	(1,024,075)	(1,055,427)	(1,053,814)	(1,064,303)	(970,908)	(843,857)	(810,844)	(656,545)
Cash payments for insurance	(236,705)	(237,684)	(208,614)	(249,790)	(222,280)	(249,566)	(293,462)	(248,434)	(275,004)	(264,252)
Net Cash Provided (Used) by Operating Activities	536,729	378,791	309,498	823,204	222,795	1,003,194	500,695	566,408	425,175	436,269
Cash Flows From Capital and Related Financing Activities										
Acquisition and Construction of Capital Assets	(7,111,372)	(5,320,481)	(4,172,542)	(8,648,385)	(7,419,623)	(4,216,586)	(4,982,119)	(9,388,510)	(5,108,733)	(4,120,037)
Proceeds from Sale of Assets	9,745	29,485	-	-	-	-	-	-	-	-
Proceeds from Sale of Land to State of Tennessee	-	241,712	-	-	-	-	-	-	-	-
Capital grants received	7,337,108	4,321,741	3,859,505	6,897,168	6,967,113	3,617,479	4,402,861	7,071,240	3,200,256	2,265,552
PFC Funds Received	792,157	913,460	862,463	808,349	795,705	836,158	530,007	597,143	615,655	533,262
CFC Funds Received	381,681	379,825	355,410	322,865	275,044	280,364	295,764	319,116	291,650	259,800
Interest Paid	(263,969)	(296,105)	(325,425)	(352,352)	(376,377)	(399,533)	(422,178)	(442,408)	(462,805)	(410,311)
Cost of Issuing Debt	-	-	-	-	-	-	-	-	-	(299,362)
Bond Proceeds	-	-	-	-	-	-	-	-	-	10,540,000
Principal paid on long-term debt	(785,000)	(750,000)	(720,000)	(695,000)	(670,000)	(645,000)	(615,000)	(595,000)	(575,000)	(5,380,000)
Net Cash Provided (Used for) Capital and Related Financing Activities	360,350	(480,363)	(140,589)	(1,667,355)	(428,138)	(527,118)	(790,665)	(2,438,419)	(2,038,977)	3,388,904
Cash Flows From Investing Activities										
Purchase of Investments	(459,224)	(12,019)	(330,337)	(35,325)	(1,720,370)	(518,499)	(7,714)	(9,084)	(8,762)	(448,435)
Sales of Investments	-	-	309,564	421,328	614,584	-	-	-	-	2,777,692
Interest Received	21,939	17,660	31,380	69,405	65,844	159,649	163,644	177,101	135,378	78,502
Cash Paid for Management Fees	-	-	(480)	(480)	(480)	(548)	(667)	(837)	(4,009)	(11,937)
Bond Issue Costs	-	-	-	-	-	-	-	-	-	-
Net Cash Provided By (Used for) Investing Activities	(437,285)	5,641	10,127	454,928	(1,040,422)	(359,398)	155,263	167,180	122,607	2,395,822
Net Increase (Decrease) In Cash and Cash Equivalents	459,794	(95,931)	179,036	(389,223)	(1,245,765)	116,678	(134,707)	(1,704,831)	(1,491,195)	6,220,995
Cash and Cash Equivalents at Beginning of Year	2,843,672	2,939,603	2,760,567	3,149,790	4,395,555	4,278,877	4,413,584	6,118,415	7,609,610	1,388,615
Cash and Cash Equivalents at End of Year	\$ 3,303,466	\$ 2,843,672	\$ 2,939,603	\$ 2,760,567	\$ 3,149,790	\$ 4,395,555	\$ 4,278,877	\$ 4,413,584	\$ 6,118,415	\$ 7,609,610

Source: Audited Financial Statements

Tri-Cities Airport Authority
Table 3:
Restricted Assets
Last Ten Fiscal Years (unaudited)

<u>Year</u>		<u>Bond Escrow</u>		<u>Dedicated</u>		<u>GRAND TOTAL</u>
2013	\$	1,058,760	\$	1,178,618	\$	2,237,378
2012	\$	1,058,760	\$	1,083,076	\$	2,141,836
2011	\$	1,058,760	\$	1,074,304	\$	2,133,064
2010	\$	1,058,760	\$	1,059,682	\$	2,118,442
2009	\$	1,058,760	\$	1,358,264	\$	2,417,024
2008	\$	1,061,800	\$	1,438,282	\$	2,500,082
2007	\$	1,061,800	\$	1,387,371	\$	2,449,171
2006	\$	1,067,754	\$	1,348,748	\$	2,416,502
2005	\$	1,067,754	\$	1,312,455	\$	2,380,209
2004	\$	1,067,754	\$	1,273,755	\$	2,341,509

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 4:
Principal Revenue Sources and Revenues Per Enplaned Passenger
Last Ten Fiscal Years (Unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Airline Revenues:										
Landing Fees *	\$ 533,275	\$ 514,771	\$ 497,944	\$ 516,107	\$ 593,664	\$ 613,527	\$ 590,577	\$ 504,567	\$ 444,625	\$ 392,953
Terminal Rents	926,884	815,561	788,539	752,467	802,421	775,683	775,683	737,410	691,924	646,680
Security Reimbursements	561,193	556,313	553,268	560,580	568,086	609,186	573,096	553,548	532,151	542,497
Jetway Fees	11,430	27,795	19,410	8,230	5,400	7,275	9,675	6,675	450	-
Other	2,640	5,052	5,089	4,774	7,827	8,554	12,599	13,061	9,451	10,613
Total Airline Revenue	\$ 2,035,422	\$ 1,919,492	\$ 1,864,250	\$ 1,842,158	\$ 1,977,398	\$ 2,014,225	\$ 1,961,629	\$ 1,815,261	\$ 1,678,601	\$ 1,592,743
<i>Percent of Total Operating Revenues</i>	<i>33.5%</i>	<i>31.2%</i>	<i>31.6%</i>	<i>32.4%</i>	<i>34.0%</i>	<i>32.9%</i>	<i>33.0%</i>	<i>30.3%</i>	<i>29.2%</i>	<i>29.9%</i>
Non-Airline Revenues										
Parking	1,868,305	1,945,375	1,858,862	1,704,348	1,782,756	1,878,917	1,832,702	1,862,406	1,660,578	1,466,110
Percent of Total Operating Revenues	31%	32%	32%	30%	31%	31%	31%	31%	29%	28%
Rental Car	822,556	873,378	792,309	764,671	679,626	840,589	777,119	726,233	740,435	697,617
Other	1,354,056	1,422,138	1,380,843	1,382,383	1,378,664	1,383,600	1,369,482	1,581,600	1,660,818	1,573,058
Total Non-Airline Revenues	\$ 4,044,917	\$ 4,240,891	\$ 4,032,014	\$ 3,851,402	\$ 3,841,046	\$ 4,103,106	\$ 3,979,303	\$ 4,170,239	\$ 4,061,831	\$ 3,736,785
<i>Percent of Total Operating Revenues</i>	<i>66.5%</i>	<i>68.8%</i>	<i>68.4%</i>	<i>67.6%</i>	<i>66.0%</i>	<i>67.1%</i>	<i>67.0%</i>	<i>69.7%</i>	<i>70.8%</i>	<i>70.1%</i>
Total Operating Revenues	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,932	\$ 5,985,500	\$ 5,740,432	\$ 5,329,528
<i>Percent of Total Revenues</i>	<i>83.7%</i>	<i>79.9%</i>	<i>82.3%</i>	<i>83.0%</i>	<i>83.3%</i>	<i>82.7%</i>	<i>85.6%</i>	<i>84.8%</i>	<i>84.4%</i>	<i>85.7%</i>
Nonoperating Revenues										
Passenger Facility Charges	\$ 771,260	\$ 884,120	\$ 879,296	\$ 790,497	\$ 843,482	\$ 832,657	\$ 538,856	\$ 583,092	\$ 628,543	\$ 537,490
Customer Facility Charges	381,681	379,825	355,410	307,017	253,729	291,228	295,337	316,526	297,554	260,532
Interest Income	21,939	17,660	31,380	69,405	65,844	159,649	163,644	177,101	135,378	74,010
Sale of Land to State of Tennessee	-	241,712	-	-	-	-	-	-	-	-
Proceeds on Sale of Assets	9,745	29,485	-	-	-	-	-	-	-	20,519
Total Nonoperating Revenues	\$ 1,184,625	\$ 1,552,802	\$ 1,266,086	\$ 1,166,919	\$ 1,163,055	\$ 1,283,534	\$ 997,837	\$ 1,076,719	\$ 1,061,475	\$ 892,551
<i>Percent of Total Revenues</i>	<i>16.3%</i>	<i>20.1%</i>	<i>17.7%</i>	<i>17.0%</i>	<i>16.7%</i>	<i>17.3%</i>	<i>14.4%</i>	<i>15.2%</i>	<i>15.6%</i>	<i>14.3%</i>
Total Revenues	\$ 7,264,964	\$ 7,713,185	\$ 7,162,350	\$ 6,860,479	\$ 6,981,499	\$ 7,400,865	\$ 6,938,769	\$ 7,062,219	\$ 6,801,907	\$ 6,222,079
Enplaned Passengers (excluding charters)	203,161	221,681	214,669	198,995	205,547	210,244	202,866	224,913	234,238	199,472
Airline Revenue Per enplaned passenger	\$ 10.02	\$ 8.66	\$ 8.68	\$ 9.26	\$ 9.62	\$ 9.58	\$ 9.67	\$ 8.07	\$ 7.17	\$ 7.98
Parking Revenue per enplaned passenger	\$ 9.20	\$ 8.78	\$ 8.66	\$ 8.56	\$ 8.67	\$ 8.94	\$ 9.03	\$ 8.28	\$ 7.09	\$ 7.35
Total Revenue Per enplaned passenger	\$ 35.76	\$ 34.79	\$ 33.36	\$ 34.48	\$ 33.97	\$ 35.20	\$ 34.20	\$ 31.40	\$ 29.04	\$ 31.19

Source: Audited Financial Statements
Tri-Cities Airport Authority Activity Reports

* - Airline Landing Fees from 2007 through 2012 were revised to reflect amounts that were net of Ground Handling Fees.

Tri-Cities Airport Authority
TABLE 5:
Revenue Rates
Last Ten Fiscal Years (Unaudited)

	SIGNATORY AIRLINES RATES AND CHARGES									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Landing Fees (per 1,000 lbs. MGLW)	\$ 2.17	\$ 1.94	\$ 1.94	\$ 1.94	\$ 1.94	\$ 1.85	\$ 1.85	\$ 1.57	\$ 1.31	\$ 1.09
Terminal Rental Rates (per square foot)	\$ 33.01	\$ 32.20	\$ 31.11	\$ 40.52	\$ 40.52	\$ 38.74	\$ 38.74	\$ 36.80	\$ 34.07	\$ 25.69
Terminal Aircraft Parking Apron Fee, per turn	\$ 9.02	\$ 7.47	\$ 6.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Jetway Use Fee (per use)	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 20.00	\$ 20.00	\$ 20.00
Annual Security Reimbursement *	\$ 561,193	\$ 556,316	\$ 553,268	\$ 560,580	\$ 568,086	\$ 609,186	\$ 558,127	\$ 553,548	\$ 532,151	\$ 542,497

* Security Reimbursement is set at fifty percent of the annual Public Safety operating budget.

	Parking Rates									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Long-Term Parking - Daily **	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 7.00	\$ 7.00
	\$1 per 30 min	\$1 per 30 min *	\$1 per 30 min *	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour	\$1 per hour
Short-Term Parking - Daily	\$ 12.00	\$ 12.00	\$ 12.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 10.00	\$ 8.00	\$ 8.00
- Incremental	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per 30 min	\$1 per hour

** - \$1.00 per hour after the first day up to the full day rate.

Source: Tri-Cities Airport Authority Lease Data

Tri-Cities Airport Authority
TABLE 6:
Enplaned Passengers
Last Ten Fiscal Years (unaudited)

Airline	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Allegiant Air	31,460	30,879	33,181	31,198	38,499	26,020	1,881	-	-	-
US Airways Express (Air Wisconsin)	9,327	13,633	443	-	-	460	288	2,711	-	-
US Airways Express (Allegheny)	-	-	-	-	-	-	-	-	-	1,220
American Connection/Eagle	-	11,796	19,004	-	-	-	-	282	6,262	6,582
Delta (Atlantic Southeast Airlines)	-	60,052	90,866	87,223	64,576	53,075	40,146	63,159	75,160	69,460
Delta (Atlantic Coast)	-	-	-	-	-	-	-	-	9,639	25,526
Delta (Chautauqua)	-	-	-	1,178	17,709	30,864	41,066	25,267	6,518	-
Delta (Comair)	-	-	7,027	1,232	2,233	3,908	831	24,649	38,988	9,964
Delta (Freedom)	-	-	67	10,969	4,010	11,586	32,297	10,092	-	-
Delta (Pinnacle)	-	144	8,558	3,611	-	-	-	-	-	-
US Airways Express (Mesa Jet)	160	459	366	602	671	959	1,065	21,801	38,357	-
Northwest Airlink	-	-	-	1,351	22,467	22,776	23,689	27,683	27,790	24,254
Sky West	-	-	-	6,162	-	-	-	-	-	-
US Airways Express (Piedmont)	45,251	19,151	24,896	29,336	33,877	38,198	33,810	31,220	27,203	45,067
US Airways Express (PSA Airlines)	8,137	28,476	30,261	26,133	21,505	22,398	27,793	18,049	246	9,017
US Airways Express (Trans States)	-	-	-	-	-	-	-	-	4,075	8,382
DELTA (XJT Express Jet)	<u>108,826</u>	<u>57,091</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Sub-Total Air Carriers	203,161	221,681	214,669	198,995	205,547	210,244	202,866	224,913	234,238	199,472
Charters	<u>1,303</u>	<u>1,696</u>	<u>2,673</u>	<u>3,110</u>	<u>4,884</u>	<u>2,837</u>	<u>2,429</u>	<u>2,083</u>	<u>2,496</u>	<u>3,410</u>
Total	<u>204,464</u>	<u>223,377</u>	<u>217,342</u>	<u>202,105</u>	<u>210,431</u>	<u>213,081</u>	<u>205,295</u>	<u>226,996</u>	<u>236,734</u>	<u>202,882</u>

Source: Tri-Cities Airport Authority Traffic Reports.

Tri-Cities Airport Authority
TABLE 7a:
Airline Landed Weights (000's Omitted)
Last Ten Fiscal Years (unaudited)

Air Carriers	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Air Wisconsin	11,327	19,176	1,833	141	-	1,786	893	5,264	-	-
Allegheny Airlines	-	-	-	-	-	-	-	-	-	3,492
Allegiant Airlines	30,913	31,075	34,062	32,930	41,891	28,929	1,814	-	-	-
American Eagle/ Conn	-	14,713	28,308	-	-	-	-	421	10,240	10,474
Atlantic Coast	-	-	-	-	-	-	-	-	15,291	32,803
Atlantic Southeast	-	68,407	113,196	115,660	93,915	71,061	44,709	76,124	91,836	90,783
Chautauqua Airlines	-	-	-	1,833	27,449	45,249	62,245	35,603	8,925	-
Comair	-	-	9,447	1,504	3,619	6,392	1,175	36,599	60,630	31,255
Freedom	-	-	170	15,233	5,489	14,595	40,593	11,829	-	-
Mesa Jet	662	1,103	441	956	1,397	1,360	1,387	29,075	56,449	-
Northwest Airlink	-	-	-	1,625	43,087	41,411	41,149	41,009	47,947	44,155
Piedmont	55,311	28,597	35,913	41,721	51,299	54,177	49,140	43,816	39,842	69,381
Pinnacle	-	141	15,275	6,909	-	-	-	-	-	-
PSA Airlines	12,198	38,458	46,132	39,263	38,872	42,720	50,563	28,411	516	20,125
Sky West	-	-	-	9,024	-	-	-	-	-	-
Trans State	-	-	-	-	-	-	-	-	8,015	19,292
Delta	135,330	67,220	-	-	-	-	-	-	-	-
Subtotal	245,741	268,890	284,777	266,799	307,018	307,680	293,668	308,151	339,691	321,760
Charters	3,436	4,297	7,807	7,702	10,070	7,082	6,361	5,181	6,384	9,095
Total Air Carriers	249,177	273,187	292,584	274,501	317,088	314,762	300,029	313,332	346,075	330,855

Source: Tri-Cities Airport Activity Reports

Tri-Cities Airport Authority
TABLE 7b:
Cargo Landed Weights
Last Ten Fiscal Years (unaudited)

<u>Cargo Carriers</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ABX (DHL)/Airborne	-	-	-	-	21,163	50,945	51,219	50,940	50,956	50,991
Flight Express	-	-	408	612	5,777	8,359	8,359	8,359	8,359	8,359
Quest Diagnostic	-	1,188	1,296	1,296	1,296	-	-	-	-	-
Kalitta	-	-	-	-	-	-	-	9	751	-
Martinaire (DHL)	-	-	-	-	-	-	-	-	2,108	2,159
Solstas	918	-	-	-	-	-	-	-	-	-
Saber	-	-	-	-	-	-	-	-	-	334
Other	82	1,693	734	4,131	80	1,647	1,729	2,677	4,963	5,973
	<u>1,000</u>	<u>2,881</u>	<u>2,438</u>	<u>6,039</u>	<u>28,316</u>	<u>60,951</u>	<u>61,307</u>	<u>61,985</u>	<u>67,137</u>	<u>67,816</u>
TOTAL LANDED WEIGHTS	<u>250,177</u>	<u>276,068</u>	<u>295,022</u>	<u>280,540</u>	<u>345,404</u>	<u>375,713</u>	<u>361,336</u>	<u>375,317</u>	<u>413,212</u>	<u>398,671</u>

Source: Tri-Cities Airport Activity Report

Tri-Cities Airport Authority
TABLE 8:
Aircraft Movements Summary (Takeoff and Landing)
Last Ten Fiscal Years (unaudited)

See Independent Auditors' Report.	Fiscal Year	Air Carrier	Charters	Cargo Carriers	General Aviation	Air Taxi	Military	Total
	2013	9,538	125	362	34,533	2,584	409	47,551
	2012	10,927	136	520	39,121	1,775	509	52,988
	2011	11,702	204	828	35,868	1,277	920	50,799
	2010	10,928	183	1,056	37,372	1,347	687	51,573
	2009	13,688	278	3,130	35,705	646	501	53,948
	2008	14,384	186	4,592	41,681	299	398	61,540
	2007	14,828	251	4,628	45,483	-	439	65,629
	2006	15,188	142	4,678	51,625	347	725	72,705
	2005	18,270	194	5,304	59,017	230	583	83,598
	2004	19,102	348	5,334	66,660	686	697	92,827

Source: Air Traffic Reports

Tri-Cities Airport Authority
TABLE 9:
Air Cargo, Freight & Mail
Last Ten Fiscal Years (unaudited)
(amounts expressed in pounds)

Fiscal	Air	Cargo			
Year	Carriers	Carriers	Sub-total	Mail	Total
2013	53,739	5,166	58,905	45	58,950
2012	29,557	124,384	153,941	768	154,709
2011	31,489	97,570	129,059	2,479	131,538
2010	45,384	327,030	372,414	5,114	377,528
2009	100,613	5,898,721	5,999,334	1,593	6,000,927
2008	124,357	16,263,784	16,388,141	239	16,388,380
2007	130,349	10,290,014	10,420,363	1,311	10,421,674
2006	139,507	8,337,359	8,476,866	911	8,477,777
2005	175,998	3,593,986	3,769,984	2,448	3,772,432
2004	207,288	3,917,036	4,124,324	71,898	4,196,222

Source: Air Traffic Reports

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 10:
Debt Service Coverage
Last Ten Fiscal Years (unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Revenues	\$ 6,080,339	\$ 6,160,383	\$ 5,896,264	\$ 5,693,560	\$ 5,818,444	\$ 6,117,331	\$ 5,940,932	\$ 5,985,500	\$ 5,740,432	\$ 5,329,528
Operating Expenses	<u>\$ 5,669,838</u>	<u>\$ 5,422,576</u>	<u>\$ 5,347,016</u>	<u>\$ 5,101,080</u>	<u>\$ 5,431,972</u>	<u>\$ 5,415,059</u>	<u>\$ 5,415,312</u>	<u>\$ 5,484,486</u>	<u>\$ 5,333,989</u>	<u>\$ 4,902,809</u>
Operating Income Before Adjustments	410,501	737,807	549,248	592,480	386,472	702,272	525,620	501,014	406,443	426,719
Other Income	1,184,625	1,552,802	1,266,086	1,166,919	1,163,055	1,283,534	997,837	1,076,719	1,061,475	892,911
Other Expenses Net of Interest	<u>-</u>	<u>-</u>	<u>480</u>	<u>480</u>	<u>480</u>	<u>548</u>	<u>12,827</u>	<u>9,227</u>	<u>110,191</u>	<u>351,385</u>
Net Revenues	<u>\$ 1,595,126</u>	<u>\$ 2,290,609</u>	<u>\$ 1,814,854</u>	<u>\$ 1,758,919</u>	<u>\$ 1,549,047</u>	<u>\$ 1,985,258</u>	<u>\$ 1,510,630</u>	<u>\$ 1,568,506</u>	<u>\$ 1,357,727</u>	<u>\$ 968,245</u>
Debt Service on airport revenue bonds										
Principal	\$ 785,000	\$ 750,000	\$ 720,000	\$ 695,000	\$ 670,000	\$ 645,000	\$ 615,000	\$ 595,000	\$ 575,000	\$ 140,000
Interest (a)	<u>263,969</u>	<u>295,625</u>	<u>325,425</u>	<u>352,351</u>	<u>376,376</u>	<u>399,533</u>	<u>427,431</u>	<u>447,777</u>	<u>468,291</u>	<u>350,508</u>
Total Debt Service	<u>\$ 1,048,969</u>	<u>\$ 1,045,625</u>	<u>\$ 1,045,425</u>	<u>\$ 1,047,351</u>	<u>\$ 1,046,376</u>	<u>\$ 1,044,533</u>	<u>\$ 1,042,431</u>	<u>\$ 1,042,777</u>	<u>\$ 1,043,291</u>	<u>\$ 490,508</u>
Coverage ratio * (Revenues/Debt Service)	1.52	2.19	1.74	1.68	1.48	1.90	1.45	1.50	1.30	1.97
* Does not include amounts held in bond reserves	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,058,760	\$ 1,061,800	\$ 1,061,800	\$ 1,067,754	\$ 1,067,754	\$ 1,067,754

Source: Tri-Cities Airport Authority Activity Reports

Tri-Cities Airport Authority
TABLE 11:
Ratios of Outstanding Debt and Debt Service
Last Ten Fiscal Years (unaudited)

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Outstanding Debt Per Enplaned Passenger										
Outstanding Debt: Airport Revenue Bonds	\$ 4,350,000	\$ 5,135,000	\$ 5,885,000	\$ 6,605,000	\$ 7,300,000	\$ 7,970,000	\$ 8,615,000	\$ 9,230,000	\$ 9,825,000	\$ 10,400,000
Enplaned Passengers	204,464	223,377	217,342	202,014	210,431	213,081	205,295	226,996	236,734	202,882
Outstanding Debt Per Enplaned Passenger	\$ 21	\$ 23	\$ 27	\$ 33	\$ 35	\$ 37	\$ 42	\$ 41	\$ 42	\$ 51
Debt Service										
Principal	785,000	750,000	720,000	695,000	670,000	645,000	615,000	595,000	575,000	140,000
Interest	263,969	295,625	325,425	352,351	376,376	399,533	427,431	447,777	468,291	350,508
Total Debt Service	1,048,969	1,045,625	1,045,425	1,047,351	1,046,376	1,044,533	1,042,431	1,042,777	1,043,291	490,508
Operating expenses	\$ 5,617,441	\$ 5,422,576	\$ 5,347,016	\$ 5,101,080	\$ 5,431,972	\$ 5,415,059	\$ 5,415,312	\$ 5,484,486	\$ 5,333,989	\$ 4,902,809
Total	\$ 6,666,410	\$ 6,468,201	\$ 6,392,441	\$ 6,148,431	\$ 6,478,348	\$ 6,459,592	\$ 6,457,743	\$ 6,527,263	\$ 6,377,280	\$ 5,393,317
Ratio of debt service to Total Expenses	15.7%	16.2%	16.4%	17.0%	16.2%	16.2%	16.1%	16.0%	16.4%	9.1%
Debt Service per Enplaned Passenger	\$ 5.13	\$ 4.68	\$ 4.81	\$ 5.18	\$ 4.97	\$ 4.90	\$ 5.08	\$ 4.59	\$ 4.41	\$ 2.42

Source: Audited Financial Statements

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 12:
Passenger Facility Charges
Last Ten Fiscal Years (unaudited)

Airline	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Allegiant Air	\$ 127,838	\$ 145,850	\$ 158,203	\$ 160,690	\$ 171,223	\$ 92,092	\$ -	\$ -	\$ -	\$ -
Delta	406,398	430,135	391,037	393,130	320,918	387,486	\$ 291,228	\$ 314,364	\$ 340,036	\$ 267,296
US Airways	221,056	229,087	211,119	204,014	212,194	238,354	156,214	165,297	170,816	159,186
Northwest	-	-	-	4,328	62,851	88,540	54,197	68,139	73,406	67,645
American	15,968	54,724	70,835	2,280	-	-	833	-	15,923	15,866
United	-	24,324	20,162	18,408	-	-	-	-	20,400	18,014
Other	-	-	27,940	7,647	76,296	26,185	36,384	35,292	7,962	9,483
Total PFC Revenue	\$ 771,260	\$ 884,120	\$ 879,296	\$ 790,497	\$ 843,482	\$ 832,657	\$ 538,856	\$ 583,092	\$ 628,543	\$ 537,490
Interest Earned	3,625	5,407	9,690	14,211	11,536	10,142	10,077	11,063	6,270	1,820
Total PFC Related Revenue	<u>\$ 774,885</u>	<u>\$ 889,527</u>	<u>\$ 888,986</u>	<u>\$ 804,708</u>	<u>\$ 855,018</u>	<u>\$ 842,799</u>	<u>\$ 548,933</u>	<u>\$ 594,155</u>	<u>\$ 634,813</u>	<u>\$ 539,310</u>

Enplaned Passengers	204,464	221,681	217,342	202,014	210,431	213,081	205,295	226,996	236,734	202,882
% of Passengers	85.9%	90.8%	92.2%	89.1%	91.3%	89.0%	90.8%	88.9%	91.9%	90.7%

Source: PFC Quarterly Reports

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 13:
Customer Facility Charges
Last Ten Fiscal Years (unaudited)

Rental Car	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Alamo	\$ 35,001	\$ 31,806	\$ 33,237	\$ 28,413	\$ 21,413	\$ 22,484	\$ 22,701	\$ 21,609	\$ 18,938	\$ 15,120
Avis	65,043	68,782	83,511	79,902	66,276	80,675	85,176	90,804	88,825	91,878
Budget	69,696	71,608	78,903	72,729	67,508	64,267	59,374	63,441	51,221	46,014
Enterprise (2)	62,235	58,234	21,222	-	-	-	-	-	-	-
Hertz	57,906	67,635	73,611	76,833	61,866	79,555	87,059	95,508	94,649	90,138
National	91,800	81,760	64,926	49,140	36,666	44,247	41,027	45,164	42,321	50,526
Total CFC Revenue	\$ 381,681	\$ 379,825	\$ 355,410	\$ 307,017	\$ 253,729	\$ 291,228	\$ 295,337	\$ 316,526	\$ 295,954	\$ 293,676
Interest Earned	819	1,105	1,522	2,706	4,451	5,361	6,486	6,548	2,265	97
Total CFC Related Revenue	<u>\$ 382,500</u>	<u>\$ 380,930</u>	<u>\$ 356,932</u>	<u>\$ 309,723</u>	<u>\$ 258,180</u>	<u>\$ 296,589</u>	<u>\$ 301,823</u>	<u>\$ 323,074</u>	<u>\$ 298,219</u>	<u>\$ 293,773</u>

Amount per contract	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 7.00	\$ 6.00
Debt Service Payments	\$ 298,290	\$ 299,086	\$ 299,159	\$ 302,201	\$ 301,326	\$ 303,797	\$ 298,652	\$ 300,359	\$ 252,182	\$ 237,434

(1) Prior to 2011 Enterprise was located off of the airport and, therefore, was not required to charge the Customer Facility Charge.

Source: Audited Financial Statements

Tri-Cities Airport Authority
TABLE 14:
Demographic Data - Population
Last Ten Calendar Years (unaudited)

Calendar Year	Air Trade Area	Tennessee
2012	585,229	6,456,243
2011	586,168	6,403,353
2010	584,319	6,346,105
2009	576,196	6,306,019
2008	573,265	6,214,888
2007	569,644	6,156,719
2006	565,722	6,038,803
2005	493,023	5,962,959
2004	487,990	5,900,962
2003	485,884	5,797,289

Source: US Census Bureau

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 15:
Demographic Data - Per Capita Income
Last Ten Calendar Years (unaudited)

Calendar Year	Air Trade Area	Tennessee
2010 *	31,636	34,921
2009	31,770	33,802
2008	30,287	35,126
2007	28,173	33,395
2006	26,884	32,172
2005	26,383	31,107
2004	24,429	28,641

* - Most recent year available.

Source: US Dept. of Commerce Bureau of Economic Analysis

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 16:
Demographic Data - Unemployment Rate Percentage
Last Ten Calendar Years (unaudited)

Calendar Year	Air Trade Area	Tennessee
2012	7.7%	8.1%
2011	7.6%	9.2%
2010	8.5%	9.8%
2009	9.3%	10.8%
2008	7.0%	6.7%
2007	4.7%	4.8%
2006	4.7%	5.2%
2005	5.4%	5.6%
2004	5.5%	5.4%
2003	5.9%	5.7%

Source: US Bureau of Labor Statistics

See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 17:
Demographic Data
Top 10 Employers in Region (unaudited)

Company	2013			2004			Industry
	Rank	Employees	Percentage	Rank	Employees	Percentage	
Mountain States Health Alliance	1	8,995	24.1%	3	3,541	13.3%	Health Care
Eastman Chemical Company	2	6,728	18.0%	1	7,400	27.8%	Chemical, Fibers & Plastics
Wellmont Health Systems	3	6,225	16.7%	2	4,200	15.8%	Health Care
K-VA-T Food Stores, Inc.	4	5,201	13.9%			-	Retail/ Supermarkets
East Tennessee State University	5	2,350	6.3%	5	2,012	7.6%	Higher Education
James H. Quillen VA Medical Center	6	2,000	5.4%	8	1,259	4.7%	Health Care
Citigroup	7	1,700	4.6%	6	1,817	6.8%	Customer Service Call Center
Sullivan County Dept. of Education	8	1,620	4.3%		-	-	Public Education
Hawkins County Schools	9	1,300	3.5%		-	-	Public Education
Washington County Schools	10	1,200	3.2%		-	-	Public Education
Bristol Compressors		-	-	4	2,500	9.4%	Manufacturing Compressors
King Pharmaceuticals		-	-	7	1,534	5.8%	Pharmaceutical Sales
American Water Heater Group		-	-	9	1,200	4.5%	Water Heaters
AFG Industries		-	-	10	1,160	4.4%	Glass

Source: The 2012 Business Journal 'The Book of Lists'

Tri-Cities Airport Authority
TABLE 18:
Employees by Department *
Last Ten Fiscal Years (unaudited)

Fiscal Years Ending June 30

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Maintenance	9	9	9	9	9	8	9	9	9	7
Access Control	0	0	1	1	1	1	1	1	1	1
Public Safety	15	15	14	13	15	16	16	14	16	15
Janitorial	6	6	6	6	9	10	9	9	10	10
Airport Services	1	1	1	2	2	3	3	3	3	3
Marketing	2	2	3	3	3	3	3	3	3	3
Air Cargo & Trade Development	1	1	1	1	1	1	2	3	3	3
Ground Handling	1	1	1	1	1	1	0	0	0	0
Administration	8	9	9	9	10	10	9	10	10	9
Total Full-Time Employees	43	44	45	45	51	53	52	52	55	51
	2013	2012	2011	2010	2009	2008				
Part-Time & Interim Employees										
Airline Services	9	8	7	10	11	11				
Access Control	7	6	6	6	6	6				
Airport Services	1	1	2	1	1	1				
Maintenance	0	0	0	0	0	2				
Public Safety	0	2	2	2	0	0				
Janitorial	4	3	3	1	0	0				
Admin	2	1	1	1	0	0				
Total Part-Time Employees	23	21	21	21	18	20				

* - Based on current active employees as of June 30, 2013.

Source: Tri-Cities Airport Authority Payroll Records

Tri-Cities Airport Authority
TABLE 19:
Insurance in Force (unaudited)
June 30, 2013

Type of Policy	Policy Insurer	Expiration Date	Policy Limit	Risk Coverage
Airport Liability	ACE	3/31/2014	\$50,000,000	General Liability
Excess Liability	ACE	3/31/2014	\$25,000,000	Over \$1M for Auto & 1M Employment Liability
Automobile	Cincinnati Ins. Co.	3/31/2014	\$1,000,000	Bodily Injury and Property Damage, Comp/Collision, Non-owned vehicles
Property	Cincinnati Ins. Co.	3/31/2014	\$36,110,316	Buildings , contents, flood, earthquake
Personal Property	Cincinnati Ins. Co.	3/31/2014	\$2,009,561	
Business Income	Cincinnati Ins. Co.	3/31/2014	\$1,000,000	Loss of Business
Employee Liability	Cincinnati Ins. Co.	3/31/2014	\$1,000,000	Employee Benefits Liability
Equipment	Cincinnati Ins. Co.	3/31/2014	\$1,887,719	inc mobile
Public Officials	AIG/National Union	3/31/2014	\$5,000,000	Airport Commissioners
	AIG/National Union	3/31/2014	\$5,000,000	Employment Practices
Crime/Fidelity	Cincinnati Ins. Co.	3/31/2014	\$250,000	Faithful Performance Computer Fraud
Worker's Comp	USAIG/Liberty Mutual	3/31/2014	By Law	Employer's liability
	USAIG/Liberty Mutual	3/31/2014		Employee bodily injury
Health/Medical	United Healthcare	12/31/2013		Medical/Rx/Vision
Dental	MetLife	12/31/2013		Dental
Life	MetLife	12/31/2013		Life/AD&D
Voluntary Products	Met Life USAA AFLAC	12/31/2013		S/T, L/T disability, additional life, dependent coverage, cancer & accident

See Independent Auditors' Report.

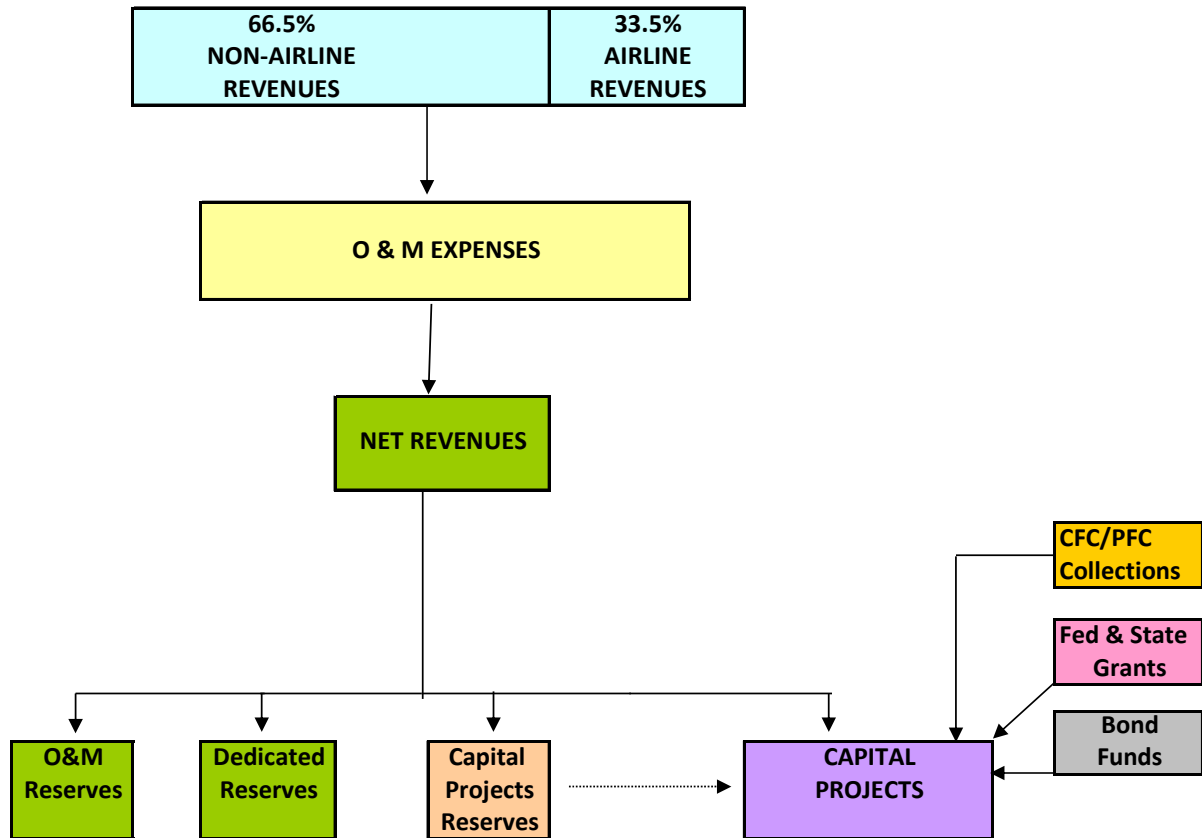
Tri-Cities Airport Authority
TABLE 20:
Capital Asset Allocation and Funding
Last Ten Fiscal Years

SOURCE OF FUNDS	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005	FY 2004
Federal Funds	\$ 6,831,868	\$ 1,730,504	\$ 2,580,825	\$ 5,170,594	\$ 5,096,784	\$ 3,305,742	\$ 2,154,764	\$ 6,318,155	\$ 1,819,123	\$ 2,876,129
State Funds	1,028,050	3,090,754	1,060,080	1,603,422	2,388,604	1,024,520	912,330	1,248,508	747,610	520,812
Local Funds	-	-	-	-	-	-	-	80,164	105,271	2,325
Bond Funds	-	-	-	-	-	-	-	1,907,957	1,739,203	-
Airport Funds	10,083	495,437	585,931	1,378,032	731,117	115,783	283,444	244,472	942,984	619,807
TOTAL SOURCE OF FUNDS	\$ 7,870,001	\$ 5,316,695	\$ 4,226,836	\$ 8,152,048	\$ 8,216,505	\$ 4,446,045	\$ 3,350,538	\$ 9,799,256	\$ 5,354,191	\$ 4,019,073
USE OF FUNDS										
Land	\$ 356,355	\$ 1,393,176	\$ 471,083	\$ 1,007,132	\$ 700,492	\$ 719,530	\$ 1,523,645	\$ 1,601,557	\$ -	\$ 611,693
Construction-In-Progress	6,006,734	(3,722,980)	(68,823)	460,791	6,573,883	2,104,451	(4,528,067)	1,027,243	3,517,343	(323,740)
Runways, Roads, etc.	1,004,302	5,310,193	2,900,891	6,342,221	494,802	87,479	4,506,185	1,542,944	231,568	3,083,562
Parking Lot	-	3,500	-	-	34,359	1,245,403	56,150	963,614	1,333,911	403,323
Terminal Building	27,746	1,808,904	-	11,359	123,285	63,017	846,523	58,494	140,503	37,116
Other Buildings	-	109,504	22,703	124,262	-	53,630	586,946	3,788,505	82,417	-
Equipment and Vehicles	432,052	414,398	900,982	91,046	235,252	172,535	359,156	786,899	48,449	207,119
Master Plans	42,812	-	-	115,237	54,432	-	-	30,000	-	-
TOTAL USE OF FUNDS	\$ 7,870,001	\$ 5,316,695	\$ 4,226,836	\$ 8,152,048	\$ 8,216,505	\$ 4,446,045	\$ 3,350,538	\$ 9,799,256	\$ 5,354,191	\$ 4,019,073

Source: Audited Financial Statements

See Independent Auditors' Report.

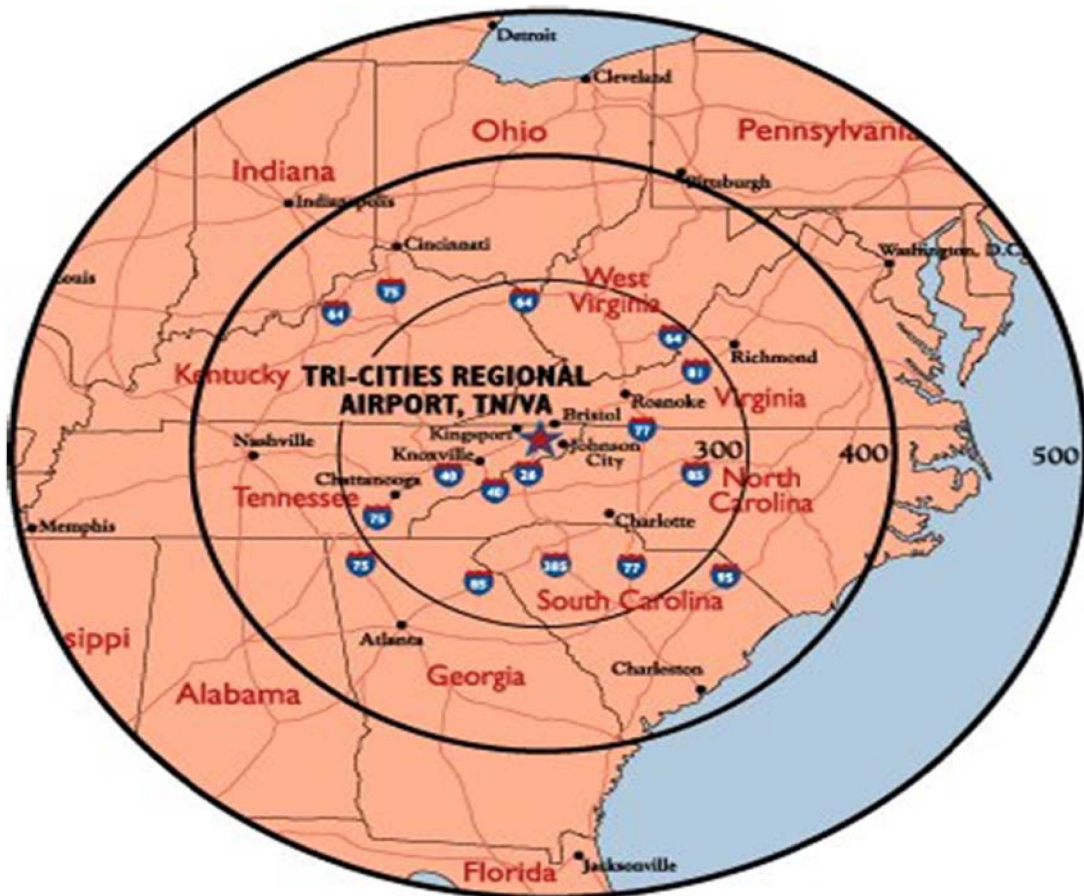
Tri-Cities Airport Authority
TABLE 21:
Flow of Funds



See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 22:
Location of Airport

Tri-Cities Regional Airport is centrally located between the cities of Bristol, Tennessee, Bristol, Virginia, Kingsport, Tennessee, and Johnson City, Tennessee. The Airport serves Northeast Tennessee, Southwest Virginia, North Carolina and Kentucky.



See Independent Auditors' Report.

Tri-Cities Airport Authority
TABLE 23:
Capital Asset Information
as of June 30, 2013

Land & Facilities	1,250 acres of land and 89 acres in easements	
Elevation:	1,519 feet above mean sea level	
Airport Code:	TRI = FAA or IATA code (ICAO code = KTRI)	
Runways:	ILS Instrument Runway 5/23 - 8,000 feet x 150 feet (Category II) Secondary Runway 9/27 - 4,442 feet x 150 feet	
Terminal:	Airlines - Exclusive/Joint Use	13,193 sf
	Airlines - Common Use	15,278 sf
	Concessions	13,787 sf
	Public/Common	34,681 sf
	Administration	10,316 sf
	Mechanical	15,366 sf
	Other Leaseable	10,911 sf
	Total	<u>113,532 sf</u>
	Number of Passenger Gates	7
	Number of Loading Bridges	1
Apron:	Number of Concessionaires	3
	Number of Rental Car Agencies	3
	Commercial Airlines	100,200 sq yds
	Cargo Airlines	174,000 sq ft
	FBO	57,800 sq yds
Parking Spaces:	Long-Term	923
	Short-Term	185
	Surface Overflow	207
	Metered	21
	Employee	103
	Ground Transportation	157
	Total Parking Spaces	<u>1,596</u>
Cargo:	Air Cargo Logistics Center	13,000 sq ft
International:	U.S. Customs Station No. 2027	
	Foreign Trade Zone No. 204	
Tower:	TRACON	Open: 6:00 am - 11:59 pm 365 days per year
FBO:	Tri-City Aviation, Inc.	85,000 sq ft Hangar
		12,000 sf ft Climate Controlled Hangar
		21 Tie-Downs & 21 Plane Ports
		10,000 sq ft FBO Terminal
Corporate:	5 Hangars	
Fuel Facilities:	15,000 gallon AVGAS 100 LL	
	40,000 gallon Jet A	

See Independent Auditors' Report.

Internal Control and Compliance

- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters
- Independent Auditors' Report on Compliance - A-133
- Schedule of Findings and Questioned Costs - A-133
- Independent Auditors' Report on Compliance - PFC
- Schedule of Findings and Questioned Costs - PFC



TRI-CITIES REGIONAL AIRPORT
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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
P.O. Box 1055
Blountville, Tennessee 37617

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Tri-Cities Airport Authority (the Authority) as of and for the fiscal year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 3, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (Internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

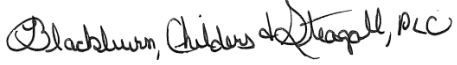
Tri-Cities Airport Authority
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Blackburn, Childers & Steagall, PLC
Johnson City, Tennessee

December 3, 2013

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
P.O. Box 1055
Blountville, Tennessee 37617

Report on Compliance for Each Major Federal Program

We have audited Tri-Cities Airport Authority's (the Authority) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the fiscal year ended June 30, 2013. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.


Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


Blackburn, Childers & Steagall, PLC
Johnson City, Tennessee

December 3, 2013

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2013

Summary of Auditors' Results

1. The auditors' report expresses an unmodified opinion on the financial statements of the Tri-Cities Airport Authority.
2. There were no significant deficiencies on the Authority's internal control disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Tri-Cities Airport Authority were disclosed during the audit.
4. There were no significant deficiencies noted on the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Tri-Cities Airport Authority expresses an unmodified opinion. All funds paid and property or services transferred were paid in a manner consistent with 49 U.S.C. paragraph 47107(b) and FAA's Policy and Procedures regarding the use of airport revenue.
6. There were no audit findings relative to the major federal award programs.
7. The program tested as a major program was the Airport Improvement Program CFDA #20.106.
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Tri-Cities Airport Authority was determined to be a low risk auditee.

Financial Statement Findings

There were no financial statement findings.

Findings and Questioned Costs – Major Federal Award Programs Audit

There were no findings and questioned costs in regard to the major federal award programs audit.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO THE PASSENGER FACILITY CHARGE
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE**

To the Honorable Commissioners
of the Tri-Cities Airport Authority
P.O. Box 1055
Blountville, TN 37617

Report on Compliance for Passenger Facility Charge

We have audited the compliance of the Tri-Cities Airport Authority (the Authority), with the compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (the Guide) for its passenger facility charge program for the fiscal year ended June 30, 2013.

Management's Responsibility

Management is responsible for compliance with the requirements of laws and regulations applicable to its passenger facility charge program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for passenger facility charge based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Guide. Those standards and the Guide require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. However, our audit does not provide a legal determination of the Authority's compliance with those requirements.

Opinion on Passenger Facility Charge

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to the passenger facility charge program for the fiscal year ended June 30, 2013.

To the Honorable Commissioners
of the Tri-Cities Airport Authority
Internal Control over Compliance


Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations applicable to the passenger facility charge program. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program as a basis for designing our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with the Guide. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance with the requirements of laws and regulations pertaining to the passenger facility charge program.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of the guide on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of the guide will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the guide that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the guide. Accordingly, this report is not suitable for any other purpose.


Blackburn, Childers & Steagall, PLC
Johnson City, Tennessee

December 3, 2013

TRI-CITIES AIRPORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
PASSENGER FACILITY CHARGE PROGRAM
June 30, 2013

I. Summary of Auditors' Results

- i. An unmodified report was issued on the financial statements of the Tri-Cities Airport Authority.
- ii. No instances of noncompliance were disclosed by the audit on the Authority's financial statements.
- iii. An unmodified opinion was issued on compliance for the passenger facility charge program.

II. Financial Statement Findings

There were no findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*.

III. Passenger Facility Charge Program Findings

There were no findings related to the passenger facility charge program.